Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
Corporate Government Sector
Cluster 2 – Social Security Services and Housing
Office of the Cluster Director

July 15, 2020

SHFC
OFFICE OF THE BOARD SECRETARY
RECEIVED
BY: [signature]
DATE: 7-16-20

THE BOARD OF DIRECTORS
Social Housing Finance Corporation
BDO Plaza, 8737 Paseo de Roxas
Makati City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Social Housing Finance Corporation (SHFC) for the years ended December 31, 2019 and 2018.

The report consists of the Independent Auditor's Report, the Audited Financial Statements of the SHFC, the Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of the SHFC for the years ended December 31, 2019 and 2018 because the Undistributed Collections (UC) under Other Payables account, totaling P394.076 million and P430.326 million as at December 31, 2019 and 2018, respectively, remained un-posted to the Mortgage Contracts Receivable (MCR) under Receivables account, due to the absence of a policy on the proper and timely distribution of UC to the individual ledgers of the member-borrowers (MBs) concerned. Thus, the Other Payables and Receivables accounts are both overstated by the same amounts.

Moreover, the account balances of the Investments in Treasury Bills of P1.604 billion in 2019 and P4.080 billion in 2018; Receivables, current of P102.211 million in 2019 and P109.829 million in 2018; Other Current Assets of P518.260 million in 2019 and P352.802 million in 2018; Receivables, non-current of P18.335 billion in 2019 and P16.667 billion in 2018; and Other Non-Current Assets of P552.560 million in 2019 and P549.874 million in 2018 or a total of P21.112 billion and P21.759 billion as at December 31, 2019 and 2018, respectively, are misstated by undetermined amounts due to the absence of accounting policy that harmonizes with the provisions of PFRS 9 Financial Instruments, requiring classification, measurement and impairment of these financial assets. Furthermore, expected credit losses on these financial assets were not recognized through a loss allowance contrary to the requirements of PFRS 9.

* received from COA 7/15/20

* temporarily received by OB in regional [illegible] for #30[illegible] logbook on 7/15/20

For the above observations, we reiterated the prior years' audit recommendations that Management:

For Undistributed Collections

a. Submit work breakdown schedule to post and allocate UC for CY 2019 by at least:

    i. 50 percent of the UC by CY 2020; and
    ii. 50 percent of the UC by CY 2021.

b. Reconcile the variance between the SL and GL balances by at least:

    i. 50 percent of the UC by CY 2020; and
    ii. 50 percent of the UC by CY 2021.

c. Require the Information and Communication Technology Department (ICTD) to enhance the database to include the High Density Housing (HDH) Projects and all other accounts not yet in the database; and

d. Formulate written policy on the number of days within which to distribute/allocate payments made by MBs to avoid the accumulation of UC.

For absence of accounting policy on financial instruments

We recommended that Management formulate a policy on financial instruments that harmonizes with the provisions of the PFRS 9 to fairly present the financial statements.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The present value of expected payments to cover future retirement benefits of SHFC's employees was not measured and recognized regularly in the books as benefit cost and benefit obligation, contrary to PAS 19 on Employee Benefits and PAS 1 on Presentation of Financial Statements, resulting in the understatement of both the expense and liability accounts. This defeats the purpose of spreading out the expense over years in service so that the benefit expense recognized in the financial statements does not differ materially with the benefit expense at the reporting/availment period and which has likewise an adverse impact on cash flows.

    We recommended that Management:

    a. Recognize in the books the present value of expected payments to cover future retirement benefits as expense and liability, pursuant to PAS 19;

    b. Disclose in the Notes to Financial Statements pertinent and necessary information required under paragraph 135 of PAS 19 on Employee benefits; and

    c. Seek assistance from a qualified actuary services in the measurement of all material post-employment benefit obligations to carry out a detailed valuation of the obligation before the end of the reporting period.

2. The money value of the accumulated unused leave credits amounting to P12.307 million paid to SHFC employees was not recognized regularly in the books as expense and accrued liabilities at the end of the reporting period when leave credits are earned, contrary to PAS 19 on Employee Benefits, resulting in the overstatement of expenses in

current year and the understatement of liabilities in prior years. This defeats the purpose of recognizing the expected cost of employee benefits when services are rendered.

We recommended and Management agreed to regularly recognize in the books the money value of accumulated unused leave credits at the end of the reporting period when the employees render service, in accordance with PAS 19.

3. The Alyansa ng Mamamayan sa Valenzuela Multi-Purpose Cooperative (AMVA-MPC) Project completed at a cost of P704.082 million under the HDH Program, is inhabited by 853 occupants, or 60 per cent of the 1,440 total MBs approved by the Department of the Interior and Local Government (DILG), without the necessary documentary requirements prescribed under Corporate Circular No. 16-046 and Corporate HDH Circular No. 17-013, thus, casting doubt on the eligibility of the occupants as the intended rightful recipients of the Program. This would deprive the original MBs living along waterways and danger zones of their right to own decent and affordable housing units, failing to achieve the objectives of the Program.

   We recommended that Management:

   a. Conduct a thorough validation of occupants in the HDH units as against the original masterlist of MBs from DILG, and submit an Updated Masterlist of Beneficiaries to the latter for Certification;

   b. Require the Community Associations to submit to SHFC the required documents for substitution of the actual occupants to avoid eviction and unauthorized substitution of the original MBs; and

   c. Abide strictly with the guidelines on substitution of MBs under Corporate Circular Nos. 16-046 and Corporate HDH Circular 17-013 to ensure that the recipients are the rightful beneficiaries of the Program.

The other audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on March 09, 2020, are discussed in detail in Part II of the report.

In a letter of even date, we respectfully requested the SHFC's President to take appropriate actions on the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from the date of receipt hereof.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

Ma. Lisa P. Inguillo

MA. LISA P. INGUILLO
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned and Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)

For the Years Ended December 31, 2019 and 2018

EXECUTIVE SUMMARY

INTRODUCTION

The Social Housing Finance Corporation (SHFC) was organized and established on June 21, 2005 by virtue of Executive Order (EO) No. 272 which was signed and approved by the President of the Republic of the Philippines on January 20, 2004.

As a wholly-owned subsidiary of the National Home Mortgage Finance Corporation (NHMFC), SHFC was created primarily as the lead agency in undertaking social housing programs that will cater to the formal and informal sectors in the low-income bracket and in taking charge of the development and administration of social housing program schemes, particularly the Community Mortgage Program (CMP) and the Amortization Support and Developmental Financing Programs of the Abot-Kaya Pabahay Fund (AKPF) as well as other social housing programs of the NHMFC.

Presently, SHFC is merely a trustee of the transferred CMP funds and assets. The NHMFC remains in control of the affairs of SHFC and it did not abandon its obligation to use its ownership under a trust relationship having retained its full control over the subject funds.

The governing board of SHFC, which exercises its corporate powers and determines its policies, is composed of the following: (a) the Chairman of Department of Human Settlement and Urban Development (DHSUD); (b) the President of SHFC; (c) the Secretary of Department of Budget and Management (DBM); (d) the Undersecretary of Department of Finance (DOF); (e) the President of NHMFC; (f) the Undersecretary of Department of the Interior and Local Government (DILG); and (g) four private sector representatives.

The President is assisted in the management of SHFC by the Executive Vice-President, two Vice-Presidents, three Officer-in-Charge (OIC) Senior Vice-Presidents, 19 OIC Vice-President, three Department Managers and 42 OIC Department Managers. The personnel complement for calendar year 2019 is 577, with 230 regular and 347 agency-hired employees. To date, the SHFC has 14 Satellite/Regional Offices located in Bacoor Cavite, Isabela, Naga City, Puerto Princesa City in Palawan, Bacolod City, Iloilo City, Cebu City, Davao City, General Santos City, Cagayan de Oro City, Zamboanga City, Roxas City, Calamba City and Tubigon Bohol.

The DBM-approved Corporate Operating Budget (COB) of the SHFC for CYs 2019 and 2018 amounted to P3.303 billion and P2.761 billion, respectively, which were utilized as follows:

Particulars	2019		2018	
	Budget	Utilization	Budget	Utilization
	(In Thousand Pesos)			
Personnel services	307,678	288,103	281,959	261,235
Maintenance and other operating expenses	401,331	373,058	350,285	267,722
Capital outlay	84,308	52,809	129,110	57,060
Loans outlay	2,509,340	2,560,302	2,000,000	1,916,467
	3,302,657	**3,274,272**	**2,761,354**	**2,502,487**

The registered office of SHFC is at Banco de Oro Plaza, 8737 Paseo de Roxas, Makati City.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2019	2018 (As restated)	Increase (Decrease)
Assets	28,197,893,054	27,361,085,100	836,807,954
Liabilities	21,738,246,540	21,251,442,925	486,803,615
Equity	6,459,646,514	6,109,642,175	350,004,339

II. Comparative Results of Operations

Particulars	2019	2018	Increase (Decrease)
Total income	846,008,932	717,793,791	128,215,141
Total expenses	621,804,910	513,574,152	108,230,758
Profit before tax	39,053,717	58,070,563	(19,016,846)
Income tax expense	22,711,857	26,291,956	(3,580,099)
Profit after tax	201,492,165	177,927,683	23,564,482
Subsidy from National Gov't.	727,506,829	590,247,183	137,259,646
Comprehensive income	928,998,994	768,174,866	160,824,128

OPERATIONAL HIGHLIGHTS

Performance Indicators	2019		
	Targets	Accomplishments	Wt.
Social Impact *Utilize Housing Subsidies for the Provision of Shelter Security and Improved Housing Quality thru HDHP, CMP and Marawi Shelter Projects* • *31,357 ISFs for the 139 projects provided with shelter security (Number of ISFs Assisted)*	25,000	31,357	35%
Stakeholders *Percentage of Satisfied Customers* • *Number of Stakeholders who give a rating of at least Satisfactory - 90%*	90%	SHFC received a very Satisfactory rating of 93.36% in its pre-takeout services in the Customer Satisfaction Survey conducted by University of the Philippines, National College of Public Administration and Governance	10%
Financial *Improve Collection Efficiency Rate* • *Collection Efficiency Rating – 84%*	84%	72.03%	10%
Increase Net Operating Income (Before Tax and Subsidy) • *P120 million Net Revenue*	P140 million	P175.779 million	10%
Improve Budget Utilization Rate • *Total Disbursement of DBM Approved COB – 90%-100%*	Not less than 90% but not more than 100%	99.71%	10%
Internal Process *Improve Support Systems for Effective and Efficient Processes* • *DICT - approved ISSP* • *Implementation of Phase 1 of the DICT - approved ISSP*	100% implementation of Phase II of the ISSP	ISSP Phase II were fully developed, optimized and fully implemented to include ZEUS-SHFC Portal, CAIS Kiosk, Inventory Management System, Voucher Information System,	10%

(Forward)

Performance Indicators	2019		
	Targets	Accomplishments	Wt.
		Document and Knowledge Management System and Project Record Management	
Learning and Growth *Attain Quality Management Certification* • *Attain ISO 9001:2015 Re-Certification*	Attain ISO:2015 Re-Certification (all or nothing)	SHFC ISO 9001:2015 Re Certification from SOCOTEC Certification Philippines Inc for ISO 9001 on December 19,2019	10%
Percentage of Employees Meeting Required Competencies • *100% Completion of all Competency Based Job Description (Set Competency Baseline by 2019)*	100% Completion of all Competency Based Job Description (Note: Set Competency Baseline by 2019) (all or nothing)	SHFC Completed all 211 out of 211 position titles it's Competency Based on Job description	5%

SCOPE OF AUDIT

Our audits covered the examination, on a test basis, of the accounts and financial transactions of the SHFC and the AKPF – Amortization Support and Developmental Financing Program for the years ended December 31, 2019 and 2018 and were conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI). Our audit was aimed to determine the fairness of presentation of the financial statements in accordance with Philippine Financial Reporting Standards and to assess the propriety of the financial transactions and compliance of SHFC with government laws, rules and regulations.

INDEPENDENT AUDITOR'S OPINION

We rendered a qualified opinion on the fairness of the presentation of the financial statements of the SFHC for the years ended December 31, 2019 and 2018 because the Undistributed Collections (UC) under Other Payables Accounts, totaling P394.076 million and P430.326 million as at December 31, 2019 and 2018, respectively, remained un-posted to the Mortgage Contracts Receivable (MCR) under Receivables account, due to the absence of a policy on the proper and timely distribution of UC to the individual ledgers of the member-borrowers (MBs) concerned. Thus, the Other Payables and Receivables accounts are both overstated by the same amounts.

Moreover, the account balances of the Investments in Treasury Bills of P1.604 billion in 2019 and P4.080 billion in 2018; Receivables, current of P102.211 million in 2019 and P109.829 million in 2018; Other Current Assets of P518.260 million in 2019 and P352.802 million in 2018; Receivables, non-current of P18.335 billion in 2019 and P16.667 billion in 2018; and Other Non-Current Assets of P552.560 million in 2019 and P549.874 million in 2018 or a total of P21.112 billion and P21.759 billion as at December 31, 2019 and 2018, respectively, are misstated by undetermined amounts due to the absence of accounting policy that harmonizes with the provisions of PFRS 9 Financial Instruments, requiring classification, measurement and impairment of these financial assets. Furthermore, expected credit losses on these financial assets were not recognized through a loss allowance contrary to the requirements of PFRS 9.

For the above observations, we reiterated the prior years' audit recommendations that Management:

For Undistributed Collections

a. Submit work breakdown schedule to post and allocate UC for CY 2019 by at least:

   i. 50 percent of the UC by CY 2020; and
   ii. 50 percent of the UC by CY 2021.

b. Reconcile the variance between the SL and GL balances by at least:

   i. 50 percent of the UC by CY 2020; and
   ii. 50 percent of the UC by CY 2021.

c. Require the Information and Communication Technology Department (ICTD) to enhance the database to include the High Density Housing (HDH) Projects and all other accounts not yet in the database; and

d. Formulate written policy on the number of days within which to distribute/allocate payments made by MBs to avoid the accumulation of UC.

For absence of accounting policy on financial instruments

We recommended that Management formulate a policy on financial instruments that harmonizes with the provisions of the PFRS 9 to fairly present the financial statements.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The present value of expected payments to cover future retirement benefits of SHFC's employees was not measured and recognized regularly in the books as benefit cost and benefit obligation, contrary to PAS 19 on Employee Benefits and PAS 1 on Presentation of Financial Statements, resulting in the understatement of both the expense and liability accounts. This defeats the purpose of spreading out the expense over years in service so that the benefit expense recognized in the financial statements does not differ materially with the benefit expense at the reporting/availment period and which likewise has a significant impact on cash flows.

   We recommended that Management:

   a. Recognize in the books the present value of expected payments to cover future retirement benefits as expense and liability, pursuant to PAS 19;

   b. Disclose in the Notes to Financial Statements pertinent and necessary information required under paragraph 135 of PAS 19 on Employee benefits; and

   c. Seek assistance from a qualified actuary services in the measurement of all material post-employment benefit obligations to carry out a detailed valuation of the obligation before the end of the reporting period.

2. The money value of the accumulated unused leave credits amounting to P12.307 million paid to SHFC employees was not recognized regularly in the books as expense and accrued liabilities at the end of the reporting period when leave credits are earned, contrary to PAS 19 on Employee Benefits, resulting in the overstatement of expenses in current year and the understatement of liabilities in prior years. This defeats the purpose of recognizing the expected cost of employee benefits when services are rendered.

   We recommended and Management agreed to regularly recognize in the books money value of accumulated unused leave credits at the end of the reporting period when the employees render service, in accordance with PAS 19.

3. The Alyansa ng Mamamayan sa Valenzuela Multi-Purpose Cooperative (AMVA-MPC) Project completed at a cost of P704.082 million under the HDHP, is inhabited by 853 occupants or 60 per cent of the 1,440 total Member Beneficiaries (MBs) approved by the Department of the Interior and Local Government (DILG), without the necessary documentary requirements prescribed under Corporate Circular No. 16-046 and Corporate HDH Circular No. 17-013, thus, casting doubt on the eligibility of the occupants as the intended rightful recipients of the Program. This would deprive the original MBs living along waterways and danger zones of their right to own decent and affordable housing units, failing to achieve the objectives of the Program.

   We recommended that Management:

   a. Conduct a thorough validation of occupants in the HDH units as against the original masterlist of MBs from DILG, and submit an Updated Masterlist of Beneficiaries to the latter for Certification;

   b. Require the Community Associations to submit to SHFC the required documents for substitution of the actual occupants to avoid eviction and unauthorized substitution of the original MBs; and

   c. Abide strictly with the guidelines on substitution of MBs under Corporate Circular Nos.16-046 and Corporate Circular HDH No. 17-013 to ensure that the recipients are the rightfully beneficiaries of the Program.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES, AND CHARGES AS AT YEAR-END

Total disallowances amounting to P76,804,312 consist of ND No. 2019-01(2018) amounting to P5,657,500, ND No. 2017-01-CIB-TD amounting to P71,030,479, and balance of ND 2016-01 (2014) and ND 2015-04 (2014) with outstanding balances of P116,333. No Notice of Suspension and Notice of Charge was issued.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 78 audit recommendations for both SHFC and AKPF embodied in the CY 2018 Annual Audit Report, 34 were fully implemented, 33 were partially implemented, nine were reconsidered, one was not implemented and one was issued with Notice of Disallowance. Out of the 34 partially/not implemented audit recommendations, 24 were reiterated in Part II of this Report.

TABLE OF CONTENTS

LIST OF ACRONYMS

Acronym	Definition
AC	Amortized Cost
AFAB	Authority of Freeport Area of Bataan
AFS	Available For Sale Securities
AHT	Assets Held in Trust
AKPF	Abot Kaya Pabahay Fund
AMVA	Alyansa ng Mamamayan sa Valenzuela
AOC	Abstract of Collections
AR	Accomplishment Reports
ASDFC	Amortization Support and Developmental Financing Component
AVAWC	Anti Violence Against Women and Children
BCSD	Building Construction and Site Development
BIR	Bureau of Internal Revenue
BODs	Board of Directors
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of Treasury
BUR	Budget Utilization Request
CA	Community Association
CAAP	Civil Aviation Authority of the Philippines
CAIS	Community Association Information System
CBA	Collective Bargaining Agreement
CDA	Cooperative Development Authority
CFG	Cash Flow Guaranty
CISFA	Comprehensive and Integrated Shelter Financing Act
CMA	Chattel Mortgage Agreement
CMP	Community Mortgage Program
CMR	Community Mortgage Receipts
CNA	Collective Negotiation Agreement
CO	Capital Outlay
COB	Corporate Operating Budget
COCA	Certificate of Completion and Acceptance
COE	Certificate of Eligibility
CPM	Construction Project Manager
CSC	Civil Service Commission
CSO	Civil Society Organization
CTA	Court of Tax Appeals
DBM	Department of Budget and Management
DBM-PS	Department of Budget and Management -Procurement Service
DCR	Daily Collection Report
DENR	Department of Environmental and Natural Resources
DFP	Developmental Financing Program
DHSUD	Department of Human Settlement & Urban Development
DILG	Department of the Interior and Local Government
DOF	Department of Finance
DOF-CAG	Department of Finance Corporate Affairs Group
DOTr	Department of Transportation

Acronym	Definition
DPWH	Department of Public Works and Highways
DSWD	Department of Social Welfare and Development
ECC	Environmental Compliance Certificate
ECL	Expected Credit Losses
ECQ	Enhanced Community Quarantine
EIR	Effective Interest Rate
EME	Extraordinary and Miscellaneous Expenses
EO	Executive Order
EVP	Executive Vice President
FAPI	Fire and Allied Perils
FCD	Finance and Comptrollership Department
FRSC	Financial Reporting Standards Council
FS	Financial Statement
FVPL	Fair Value Through Profit and Loss
FVTOCI	Fair Value with Changes Through Other Comprehensive Income
GAA	General Appropriations Act
GAD	Gender and Development
GBE	Government Business Enterprise
GCG	Governance Commission for GOCCs
GFA	Government Fares Agreement
GFI	Government Financial Institutions
GL	General Ledger
GMMA	Greater Metro Manila Area
GNHC	*Gumamela* Neighborhood Housing Cooperative
GOCC	Government Owned and/or Controlled Corporation
GoP	Government of the Philippines
GPB	GAD Plans and Budgets
GPPB	General Procurement and Policy Board
GSIS	Government Service Insurance System
HDH	High Density Housing
HDMF	Home Development Mutual Fund
HGC	Home Guaranty Corporation
HGDG	Harmonized Gender and Development Guidelines
HOA	Homeowners Associations
HRDD	Human Resource Development Division
HTM	Held to Maturity
HUDCC	Housing and Urban Development Coordinating Council
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICTD	Information and Communication Technology Department
IFRS	International Financial Reporting Standards
IRRs	Implementing Rules and Regulations
ISSAI	International Standards of Supreme Audit Institutions
ISFs	Informal Settler Families
ITR	Annual Income Tax Returns
LA	Lease Agreements
LBP	Landbank of the Philippines
LCMP	Localized Community Mortgage Program

Acronym	Definition
LGU	Local Government Units
LGU-HRO	Local Government Unit -Housing Resettlement Office
LIR	Loans Installment Receivable
LPA	Lease Purchase Agreement
LSISC	Liquidation Support and Interest Subsidy Component
MB	Monetary Board
MBLA	Masterlist of Beneficiaries and Loan Apportionment
MB	Member Beneficiaries
MC	Memorandum Circular
MCR	Mortgage Contract Receivable
MCR-CMP	Mortgage Contract Receivable – Community Mortgage Program
MMRB	Micro Medium Rise Building
MOA	Memorandum of Agreement
MOOE	Maintenance and Other Operating Expenses
MRAAF	Monthly Report of Accountability for Accountable Forms
MRI	Mortgage Redemption Insurance
NCR	National Capital Region
ND	Notice of Disallowance
NEDA	National Economic and Development Authority
NG	National Government
NGAs	National Government Agencies
NGOs	Non Government Organizations
NHA	National Housing Authority
NHMFC	National Home Mortgage Finance Corporation
NIRC	National Internal Revenue Code
NS	Notice of Suspension
OGCC	Office of the Corporate Government Counsel
OP	Office of the President
OSIS	Operation Support Information System
PAS	Philippine Accounting Standard
PBI	Performance Based Incentives
PCHC	Philippine Clearing House System
PCW	Philippine Commission on Women
PD	Presidential Decree
PE	Property and Equipment
PERA	Personnel Economic Relief Allowance
PFRS	Philippine Financial Reporting Standards
PhilGEPS	Philippine Government Electronic Procurement System
PhilGuarantee	Philippine Guarantee Corporation
PNR	Philippine National Railways
POs	People's Organizations
PPAs	Program, Projects and Activities
PS	Personnel Services
RA	Republic Act
RCA	Revised Chart of Accounts
RCI	Registration Fees and Comprehensive Insurance
RCIT	Regular Corporate Income Tax
REM	Real Estate Mortgage

Acronym	Definition
REUs	Regional Extension Units
RFP	Request for Payment
RIRR	Revised Implementing Rules and Regulations
RPT	Real Property Taxes
SC	Supreme Court
SEC	Securities and Exchange Commission
SFP	Statement of Financial Position
SHFC	Social Housing Finance Corporation
SL	Subsidiary Ledger
SOA	Statement of Account
SOCI	Statement of Comprehensive Income
SOHEAI	Social Housing Employees Association, Inc.
SPL	Solo Parent Leave
SPPI	Solely Payments of Principal and Interest
SSS	Social Security System
SWA	Statement of Work Accomplishments
TCT	Transfer Certificate of Title
TRAIN Law	Tax Reform Acceleration and Inclusion Law
UC	Undistributed Collections
UHLP	Unified Home Lending Program
VAAP	Vehicle Acquisition Assistance Program
VP	Vice President

PART I -

AUDITED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Social Housing Finance Corporation
Banco de Oro Plaza
8737 Paseo de Roxas
Makati City

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of the Social Housing Finance Corporation (SHFC), a wholly-owned subsidiary of the National Home Mortgage Finance Corporation, which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity, statements of cash flows for the years then ended, and notes to financial statements including a summary of significant accounting policies.

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

Bases for Qualified Opinion

The Undistributed Collections (UC) under Other Payables account pertain to payments of member-borrowers which remained un-posted to the Mortgage Contracts Receivable (MCR) under Receivables account. This overstated both the Other Payables and Receivables accounts by P394.076 million and P430.326 million as at December 31, 2019 and 2018, respectively. Further, the account balances of the Investments in Treasury Bills of P1.604 billion in 2019 and P4.080 billion in 2018; Receivables, current of P102.211 million in 2019 and P109.829 million in 2018; Other Current Assets of P518.260 million in 2019 and P352.802 million in 2018; Receivables, non-current of P18.335 billion in 2019 and P16.667 billion in 2018; and Other Non-Current Assets of P552.560 million in 2019 and P549.874 million in 2018 or a total of P21.112 billion and P21.759 billion as at December 31, 2019 and 2018, respectively, are misstated by undetermined amounts due to the absence of accounting policy that harmonizes with the provisions of PFRS 9 *Financial Instruments*, requiring classification, measurement and impairment of these financial assets. Furthermore, expected credit losses on these financial assets were not recognized through a loss allowance contrary to the requirements of PFRS 9.

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the SHFC in accordance with the Code of Conduct and Ethical Standards for 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 qualified opinion.

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

Management is responsible for the preparation and fair presentation of the 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 SHFC's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unlessmanagementeither intends to liquidate SHFC or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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 SHFC'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 SHFC'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 to the date of our auditor's report. However, future events or conditions may cause SHFC to cease to continue as 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 in Note 32 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management of SHFC. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, except for the effects of the matters described in the Bases for Qualified Opinion section, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

EMMA B. ALCOVENDAZ
Acting Supervising Auditor

June 26, 2020

Kaagapay ng Komunidad sa Maginhawang Pamumuhay

Social Housing Finance Corporation

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of SOCIAL HOUSING FINANCE CORPORATION is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2019 and December 31, 2018 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 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 SOCIAL HOUSING FINANCE CORPORATION'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 SOCIAL HOUSING FINANCE CORPORATION or to cease operations, or has no realistic alternative to do so.

The Board of Directors or Trustees is responsible for overseeing the SOCIAL HOUSING FINANCE CORPORATION's financial reporting process.

The Board of Directors or Trustees reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders or members.

The Commission on Audit, through its authorized representative, has examined the financial statements of the company pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 28 of the Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines. The audit was conducted in accordance with International Standards of Supreme Audit Institutions and the auditor, in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

ATTY. ARNOLFO RICARDO B. CABLING
Vice Chairperson of the Board

RUBEN C. LASET
OIC - Senior Vice President
Corporate and Governance Group

DANTE M. ANABE
OIC - Vice President
Finance and Comptrollership Department

Signed this 26th day of June 2020

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018 (As restated)
ASSETS			
Current Assets			
Cash and cash equivalents	4	**5,139,064,906**	4,043,304,515
Financial assets	5	**1,603,895,203**	4,079,763,312
Receivables	6	**102,210,988**	109,828,543
Inventories	7	**5,653,906**	4,181,476
Other current assets	8	**518,259,530**	352,802,343
		7,369,084,533	8,589,880,189
Non-Current Assets			
Receivables	6	**18,253,136,871**	16,587,080,818
Investment property	9	**1,789,693,558**	1,405,524,803
Property and equipment	10	**186,337,682**	182,338,824
Intangible assets	11	**1,275,024**	1,351,642
Deferred tax assets	12	**45,805,281**	45,034,947
Other non-current assets	13	**552,560,105**	549,873,877
		20,828,808,521	18,771,204,911
TOTAL ASSETS		**28,197,893,054**	27,361,085,100
LIABILITIES AND EQUITY			
Current Liabilities			
Financial liabilities	14	**1,270,124,385**	1,213,925,013
Inter-agency payables	15	**27,919,245**	24,782,248
Trust liabilities	16	**4,715,710**	4,670,960
Deferred credits/unearned income	17	**238,141,935**	249,636,799
Other payables	18	**1,485,754,782**	1,399,637,500
		3,026,656,057	2,892,652,520
Non-Current Liabilities			
Financial liabilities	14	**41,848,223**	58,547,281
Trust liabilities	16	**18,669,742,260**	18,300,243,124
		18,711,590,483	18,358,790,405
TOTAL LIABILITIES		**21,738,246,540**	21,251,442,925
Retained earnings	19	**6,449,646,514**	6,099,642,175
Stockholders' equity	19	**10,000,000**	10,000,000
TOTAL EQUITY		**6,459,646,514**	6,109,642,175
TOTAL LIABILITIES AND EQUITY		**28,197,893,054**	27,361,085,100

The Notes on pages 9 to 47 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018
INCOME			
Service and business income	20	**660,858,627**	571,644,715
		660,858,627	571,644,715
EXPENSES			
Personnel services	21	**282,643,330**	251,714,762
Maintenance and other operating expenses	22	**312,369,967**	238,109,244
Non-cash expenses	23	**22,043,308**	17,939,222
Financial expenses	24	**4,748,305**	5,810,924
		621,804,910	513,574,152
INCOME FROM OPERATIONS		**39,053,717**	58,070,563
Other non-operating income	25	**185,150,305**	146,149,076
PROFIT BEFORE TAX		**224,204,022**	204,219,639
INCOME TAX EXPENSE/(BENEFIT)			
Current	26.1	**23,482,191**	26,774,930
Deferred tax	26.2	**(770,334)**	(482,974)
		22,711,857	26,291,956
PROFIT AFTER TAX		**201,492,165**	177,927,683
Net assistance/subsidy	27	**727,506,829**	590,247,183
NET INCOME / COMPREHENSIVE INCOME		**928,998,994**	**768,174,866**

The Notes on pages 9 to 47 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2019 and 2018
(In Philippine Peso)

	Paid in Capital 19.1	**Retained Earnings** 19.2	**Total Equity**
Balance as at January 1, 2018	10,000,000	5,506,117,468	5,516,117,468
Comprehensive income for the year	0	768,174,866	768,174,866
Dividends	0	(113,452,888)	(113,452,888)
For transfer to NHMFC	0	(61,197,271)	(61,197,271)
Restated balance as at December 31, 2018	10,000,000	6,099,642,175	6,109,642,175
Balance as at January 1, 2019	10,000,000	6,099,642,175	6,109,642,175
Prior period adjustments	0	(372,737,327)	(372,737,327)
Restated balance as at January 1, 2019	10,000,000	5,726,904,848	5,736,904,848
Comprehensive income for the year	0	928,998,994	928,998,994
Dividends paid CY 2018	0	(95,960,626)	(95,960,626)
Dividends payable CY 2019	0	(110,296,702)	(110,296,702)
Balance as at December 31, 2019	**10,000,000**	**6,449,646,514**	**6,459,646,514**
Appropriated Retained Earnings			
Funds appropriated for HDH Project		6,384,479,898	
Retained Earnings for transfer to NHMFC		60,505,380	
Un-appropriated Retained Earnings		4,661,236	

The Notes on pages 9 to 47 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows			
Collection of income/revenue		**1,102,825,825**	1,034,710,227
Receipt of assistance/subsidy		**752,827,898**	0
Trust receipts		**51,862,733**	93,551,355
Collection of receivables		**7,585,309**	6,488,000
Receipt of inter-agency fund transfers		**5,152,209**	3,855,524,281
Other receipts		**10,703,941**	2,041,178
Total cash inflows		**1,930,957,915**	4,992,315,041
Cash outflows			
Release of funds for mortgage contracts		**2,194,440,001**	0
Payment of expenses		**218,747,816**	218,723,237
Refund of deposits		**178,479,328**	83,916,945
Remittance of personnel benefit contributions and mandatory deductions		**99,918,900**	105,080,525
Payment for prepaid expenses		**73,477,661**	61,105,051
Purchase of inventories		**15,583,983**	6,344,182
Grant of cash advances		**13,508,589**	13,434,963
Release of inter-agency fund transfers		**10,014,353**	26,005,021
Other disbursements		**2,315,233**	1,805,693,662
Total cash outflows		**2,806,485,864**	2,320,303,586
Net cash (used in) provided by operating activities		**(875,527,949)**	2,672,011,455
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash inflows			
Proceeds from matured investments/redemption of long-term investments/return on investments		**9,660,189,249**	7,048,125,815
Receipt of interest earned		**192,483,337**	118,756,216
Total cash inflows		**9,852,672,586**	7,166,882,031
Cash outflows			
Purchase of investments		**7,184,321,141**	7,739,702,249
Purchase/construction of property, plant and equipment		**550,446,189**	42,612,594
Grant of loans		**7,700,000**	3,420,000
Purchase of intangible assets		**882,944**	50,659
Total cash outflows		**7,743,350,274**	7,785,785,502
Net cash provided by (used in) investing activities		**2,109,322,312**	(618,903,471)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash outflows			
Payment of cash dividends		**95,960,626**	113,452,888
Payment of financial expenses for technical assistance		**26,318,585**	21,788,216
Payment of long-term liabilities		**12,567,751**	11,604,577
Payment of interest on loans and other financial charges		**3,187,010**	4,150,185
Total cash outflows		**(138,033,972)**	(150,995,866)
Net cash used in financing activities		**(138,033,972)**	(150,995,866)
INCREASE IN CASH AND CASH EQUIVALENTS		**1,095,760,391**	1,902,112,118
Cash and cash equivalents at beginning of the year		**4,043,304,515**	2,141,192,397
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**5,139,064,906**	4,043,304,515

The Notes on pages 9 to 47 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly Owned Subsidiary of National Home Mortgage Finance Corporation)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Peso)

1. CORPORATE INFORMATION

On January 20, 2004, Executive Order (EO) No. 272 was signed and approved by the President of the Republic of the Philippines authorizing the National Home Mortgage Finance Corporation (NHMFC) to organize and establish the Social Housing Finance Corporation (SHFC), as a wholly-owned subsidiary, in accordance with the Corporation Code and pertinent rules and regulations issued by the Securities and Exchange Commission (SEC). SHFC has been formally organized and established on June 21, 2005 with the issuance of the Certificate of Incorporation under SEC No. CS 200510702.

As a wholly-owned subsidiary of NHMFC, SHFC was created primarily to be the lead agency to undertake social housing programs that will cater to the formal and informal sectors in the low-income bracket and shall take charge of developing and administering social housing program schemes, particularly the Community Mortgage Program (CMP) and the Amortization Support and Developmental Financing Programs of the Abot-Kaya Pabahay Fund (AKPF) as well as other social housing programs of the NHMFC, to allow the NHMFC to focus on its primary mandate that is, developing the secondary market for home mortgages.

Presently, SHFC is merely a trustee of the transferred CMP funds and assets. The NHMFC remains in control of the affairs of SHFC and did not abandon its obligation to use its ownership under a trust relationship having retained its full control over the subject funds.

Aside from the CMP and AKPF, SHFC has been implementing the Localized Community Mortgage Program (LCMP) since July 2010. LCMP is a derivative of CMP that would assist and empower the local government units (LGUs) in achieving their housing programs for the informal sector in their respective areas.

In 2010, the President of the Philippines issued a directive in line with the Ten-Point covenant with the Urban Poor, to ensure a safe and a flood resilient permanent housing solution for Informal Settler Families (ISFs) residing in danger areas in the National Capital Region (NCR). The directive falls squarely within the mandate of SHFC, thus, in furtherance to its mandate and primary purpose, the High Density Housing (HDH) Program was created and promulgated to extend financing assistance to organized communities for the construction of HDH projects and for acquisition of lots for near-site, in city and near city relocations.

On December 7, 2017 a Trust Agreement was entered into by and between the Department of Transportation (DOTr) and SHFC for the construction of Micro Medium Rise Building (MMRB)/CMP Vertical, regular CMP, and other community driven housing programs and shelter solutions that will primarily benefit the ISFs living along the Tutuban-Los Baños segment and Calamba-Batangas branchline (Philippine National Railways South Commuter Project). An initial amount of P3 billion pesos (First Tranche) was transferred to SHFC on February 20, 2018 to finance the resettlement program for the said PNR Project. For the entirety of the North-South Railway Project Phase II, SHFC will receive the total amount of P14 billion pesos.

SHFC's registered office, which is also its principal place of business, is located at No. 8737 Paseo de Roxas, Makati City. The registered office of NHMFC is located at Filomena Building III, 104 Amorsolo Street, Legaspi Village, Makati City.

The financial statements of SHFC as at and for the years ended December 31, 2019 and 2018 were authorized for issue by SHFC's Board of Directors (BOD) on June 10, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

a. Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of SHFC have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) applicable to Government Business Enterprises (GBEs), issued by the Philippine Financial Reporting Standards Council, pursuant to the requirement under Commission on Audit Circular No. 2015-003. PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

The accompanying financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

b. Adoption of the Commission on Audit (COA) Revised Chart of Accounts (RCA)

In compliance with COA Circular No. 2020-002 dated January 28, 2020, SHFC adopted the RCA in its trial balance for CY 2019 and 2018. General Ledger and Subsidiary Ledger accounts were diligently analyzed and manually mapped to the RCA. SHFCs accounting framework is designed to provide clear and reliable information regarding the achievement of its operational objectives, compliant with the applicable PFRSs.

c. Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements. SHFC has not yet adopted PFRS 9 to its financial instruments, and thus, cannot disclose the impact to its equity.

Certain change in presentation provides more reliable and relevant information and better understanding of the company's financial statements. Amounts presented for December 31, 2018 have been reclassified to enhance the comparability with the current year's financial statements. The reclassifications pertain to financial liabilities previously presented as part of other payables.

Such reclassifications are presented in the statement of financial position as shown below:

December 31, 2018	Before reclassification	Amount reclassified	After reclassification
Current Liabilities			
Financial liabilities	1,212,066,408	1,858,605	1,213,925,013
Other payables	1,401,496,105	(1,858,605)	1,399,637,500
Other professional services	55,943,523	(55,257,840)	685,683
Clerical services	0	55,257,840	55,257,840

The Management believes that such reclassifications has no impact on the prior years' statement of comprehensive income.

d. *Functional and Presentation Currency*

These financial statements are presented in Philippine peso, SHFC's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of SHFC are measured using its functional currency. Functional currency is the currency of the primary economic environment in which SHFC operates.

2.2 Adoption of New and Amended PFRS

a. *Effective in 2019 that are relevant to SHFC:*

(i) PFRS 16, *Leases (new)* - The new standard will eventually replace PAS 17, *Leases.*

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

(ii) IFRIC 23, *Uncertain over Income Tax Treatments*. The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(iii) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the Solely Payments of Principal and Interest (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at Fair Value with changes Through Other Comprehensive Income (FVTOCI).

(iv) PAS 28 (Amendment), *Investment in Associates – Long-term Interest in Associates and Joint Venture*. The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

(v) PAS 19 (Amendments), *Employee Benefits* – clarification on amendments, curtailment or settlement of a defined benefit plan, the current service cost and net interest for the remainder of the annual reporting period are calculated using updated actuarial assumptions - i.e. consistent with the calculation of a gain or loss on the plan amendment, curtailment or settlement.

b. *Effective for annual periods beginning on or after January 1, 2020 and thereafter:*

(i) PFRS 3 (Amendments), *Business Combinations and PFRS 11 (Amendments), Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business.

(ii) PAS 12 (Amendments), *Income taxes – Tax Consequences of Dividends.* The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

(iii) PAS 23 (Amendments), *Borrowing costs – Eligibility for Capitalization.* The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

(iv) PFRS 17 *Insurance Contracts supersedes PFRS 4 Insurance Contracts as at January 1, 2021.* The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

c. *Deferred* effectivity:

PFRS 10 (Amendments), *Consolidated Financial Statements, and* PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture (effective date deferred indefinitely).* The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, Business Combinations, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

Under the prevailing circumstances, the adoption of the foregoing new and amended PFRSs is not expected to have any material effect on the financial statements of the Corporation.

2.3 Financial Assets

A financial asset is any asset that is:

a. Cash;

b. An equity instrument of another agency;

c. A contractual right to receive cash or another financial asset;

d. A contractual right to exchange financial assets or liabilities with another entity on potentially favorable terms; or

e. A contract that will or may be settled in the Corporation's own equity instruments and is a non-derivative for which the Corporation is or may be obliged to receive a variable number of the Corporation's own equity instrument; a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Corporation's own equity instruments. For this purpose, the Corporation's own equity instruments do not include puttable financial instruments classified as equity instruments.

Recognition and Measurement

Financial assets are recognized in the Statement of Financial Position when, and only when, SHFC becomes a party to the contractual provisions of the instrument. At initial recognition, the Corporation measures its financial assets at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets. After initial recognition, the Corporation measures its financial assets at fair value or amortized cost in accordance with PFRS rules on financial instruments.

Classification

A more detailed description of the categories of financial assets relevant to the authority are as follows:

Cash and cash equivalents are carried in the Statement of Financial Position at cost. Cash includes cash on hand and in bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and or at a very near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash is measured at face value.

Accounts receivables are open accounts arising from the sale of service in the ordinary course of business and not supported by promissory notes.

Non-trade receivables, i.e. loans receivable, represent claims arising from sources other than the sale of service in the ordinary course of business.

Loans and receivables are none derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as or financial assets at FVTOCI or financial assets at Fair Value Through Profit and Loss (FVPL).

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less impairment in value, if any. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in the Statement of Comprehensive Income.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of interest income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Allowance for impairment is maintained at a level considered adequate for potentially uncollectible receivables. The level of allowance is based on historical collection, current economic trends, and changes in the customer payment terms, age status of receivables and other factors that may affect collectability. The allowance is established by charges to income in the form of provision of doubtful accounts (now referred to as impairment).

2.4 Inventories

a. *Inventory Held for Consumption*

Supplies and materials purchased for inventory purposes are recorded using the Perpetual Inventory System. In compliance with PAS 2, SHFC's inventory held for consumption is valued at lower of cost or net realizable value. Inventories are reclassified to expense upon issuance thereof and recorded based on the Report of Supplies and Materials Issued.

b. *Semi-expendable Property*

These are tangible items below the capitalization threshold of P15,000 as prescribed under Paragraph 5.4 of COA Circular No. 2016-006 on Conversion from the Philippine Government Chart of Accounts under the New Government Accounting System per COA Circular No. 2004-008, as amended, to the RCA for GCs under COA Circular No. 2015-010, new, revised and deleted accounts, and relevant accounting policies and guidelines in the implementation thereof. Semi expendable properties are recognized as expense upon issuance thereof.

2.5 Prepayments and Other Current Assets

Prepayments and other current assets pertain to other resources controlled by SHFC as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to SHFC and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to SHFC beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

2.6 Property and Equipment

An item of Property and Equipment (PE) is initially recognized at cost. The cost of an asset comprises its purchase price and costs directly attributable to bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

After initial recognition, PE are carried at acquisition cost or construction cost less subsequent depreciation and amortization and impairment in value, if any.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

	Years
Building and improvements	30 to 50
Machinery and equipment	5 to 15
Office furniture and equipment	5 to 15
Transportation equipment	5 to 15
Furniture, fixtures and books	2 to 15
Leased assets improvements	Over the useful life of the improvement or the lease term whichever is shorter

An item of property and equipment, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in profit or loss in the year the item is derecognized.

2.7 Investment Property

An investment property is a property held to earn rental income and/or for capital appreciation potential, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially carried at acquisition cost plus costs incurred for site development and home building. Subsequent to initial recognition, investment property is consistently measured using the cost model which is cost less accumulated depreciation and impairment, if any, in accordance with PAS 16's requirements. However, SHFC's investment property only represents land which is valued at cost with no accumulated depreciation.

Investment property which is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

2.8 Intangible Assets

Intangible assets are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful lives ranging from three to five years as the lives of these intangible assets are considered finite.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are recognized as expense in profit or loss as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.9 Financial Liabilities

Financial liabilities are contractual obligations to deliver cash or another financial asset or to exchange financial instruments with another agency on potentially unfavorable terms. Financial liabilities are recognized when the Corporation becomes a party to the contractual terms of the instrument. All interest related charges are recognized as an expense in profit or loss under the caption Financial Expenses in the Statement of Comprehensive Income.

Trade and other payables, due to related parties and other non-current liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or SHFC does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the Statement of Financial Position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation as a result of a past event.

Provisions are measured at the best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to SHFC that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that SHFC can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Revenue and Expense Recognition

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by SHFC for services rendered.

Revenue is recognized to the extent that the revenue can be measured reliably; it is probable that future economic benefits will flow to SHFC; and the costs incurred or to be incurred can be measured reliably. In effect, the recognition of an income occurs simultaneously with the recognition of a decrease in liabilities or an increase in assets. In addition, the specific recognition criteria must also be met before revenue is recognized:

(i) Interest income on loan receivables is recognized using the effective interest method that is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(ii) Interest income on regular and time deposits is accrued on a time proportion basis, by reference to the principal amount outstanding and at the interest rates applicable.

Cost and expenses are recognized in the Statement of Comprehensive Income when decrease in future economic benefits related to a decrease in an asset or an increase in 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.

When economic benefits are expected to arise over several accounting periods and the association with income can only be indirectly determined, expenses are recognized in the income statement on the basis of rational allocation procedures. This is often necessary in recognizing the expenses associated with the using up of assets. These allocation procedures are intended to recognize expenses in the accounting periods in which the accounting benefits associated with these items are consumed.

An expense is recognized immediately in the Statement of Comprehensive Income when expenditure produces no future economic benefits or when future economic benefits do not qualify or cease to qualify for recognition in the Statement of Financial Position as an asset.

Cost and expenses are also recognized upon utilization of services or at the date they are incurred. All costs are reported in the Statement of Comprehensive Income on an accrual basis.

2.12 Employee Benefits

The employees of SHFC are members of the Social Security System (SSS) which provides life and retirement insurance coverage.

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

The Corporation recognizes expenses for accumulating earned leaves. Non-accumulating compensated absences, like special leave privileges, are not recognized.

2.13 Leases

SHFC as Lessee:

a. *Finance Lease*

Leases which transfer to SHFC substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance costs are recognized in the Statement of Comprehensive Income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

b. *Operating lease*

Leases which do not transfer to SHFC substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

SHFC determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.14 Related Parties

Related party transactions are transfers of resources, services or obligations between SHFC and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. For SHFC, these are individuals owning, directly or indirectly, an interest in the voting power of SHFC that gives them significant influence over SHFC and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.15 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is recognized for the future tax consequences and is provided or accounted for using the liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

SHFC's deferred tax asset is computed based on the temporary difference on the provisioning at the end of the reporting period.

2.16 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about SHFC's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of SHFC's financial statements in accordance with PFRS requires Management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Distinction Between Operating and Finance Leases

SHFC has entered into various lease agreements. Critical judgment was exercised by Management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

3.2 Recognition of Provisions and Contingencies

Judgment is exercised by Management to distinguish between provisions and contingencies.

3.3 Key *Sources of Estimation Uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

a. *Impairment of Trade and Other Receivables*

An adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. SHFC evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of SHFC's relationship with the customers, the customers' current credit status, the average age of accounts, collection experience and historical loss experience. At present, the Corporation submitted to the Board of Directors a revised policy on the Loan Loss Provisioning for the board's approval before its implementation.

b. *Estimation of Useful Lives of Property and Equipment and Intangible Assets*

SHFC estimates the useful lives of property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment and intangible assets are analyzed in Notes 11 and 12, respectively. Based on Management's assessment as at December 31, 2019 and 2018, there is no change in the estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

c. *Determination of Realizable Amount of Deferred Tax Assets*

SHFC reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount 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. Management assessed that the deferred tax assets recognized as at December 31, 2019 and 2018 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Notes 13 and 27.

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2019	2018
Cash in bank	**4,766,266,072**	3,753,077,714
Short-term placements		
Treasury bills	**258,724,566**	214,550,109
Time deposits – local currency	**100,370,000**	60,000,000
Cash on hand		
Cash – collecting officers and supervising tellers	**13,155,159**	15,103,623
Petty cash	**549,109**	573,069
	5,139,064,906	4,043,304,515

4.1 *Cash in bank* consists of funds deposited with government banks for payroll, corporate operating funds, Take-Out Funds, High Density Housing (HDH) Program and for the PNR South Commuter Project (DOTr Project). Cash in bank earns interest at prevailing interest rates of 1.40 to 2.75 per cent per annum for the time deposit and 0.10 per cent for the current account. The increase represents primarily the P753 million Subsidy from the National Government for HDH Projects.

4.2 *Short-term placements* consist of: (a) treasury bills which are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of change in value; and (b) time deposit – local currency which represents investment in time deposits classified as highly liquid investments maturing from 60 days up to 91 days or not more than three months from date of placements.

4.3 *Cash on hand* consists of: (a) collections of cash collecting officers and supervising tellers in the last working day of the year and were deposited only on the first working day of the succeeding year, as well as cash advances granted to cash disbursing officers; and (b) petty cash fund established at the Head and Regional/Satellite Offices to defray immediate or emergency petty expenses.

4.4 *Cash collecting officers/supervising tellers* includes collection of P91,632 which was reported lost due to theft as alleged by the concerned employee. A request for relief from accountability was already filed with the COA in December 2010. Appropriate action is put on hold pending receipt of COA decision on the matter. However, as at December 31, 2019, there was still no update regarding the said issue. Moreover, the significant decrease of about P2 million was due to lower collections received at the end of the year.

5. FINANCIAL ASSETS

This refers to *Investments in Treasury Bills* amounting to P1.604 billion and P4.080 billion as at December 31, 2019 and 2018, respectively. These are short-term highly liquid investments with average prevailing interest rates of 1.85 per cent per annum maturing from 91 days up from the date of placements.

6. RECEIVABLES

This account consists of:

	2019	2018
Current:		
Due from parent corporation	**59,447,575**	59,345,804
Due from other funds – AKPF	**19,527,643**	14,878,373
Interest receivable	**15,180,211**	28,196,237
Due from government corporations	**4,314,542**	5,665,320
Due from NGAs	**1,521,704**	1,036,855
Due from officers and employees	**2,151,939**	600,243
Receivables – disallowances/charges	**67,374**	105,711
	102,210,988	109,828,543
Non-current:		
Mortgage contract receivable	**17,942,873,611**	16,300,197,436
Assets held in trust (AHT) – insurance receivables	**345,592,162**	317,867,189
Loans receivable	**23,556,718**	23,635,110
Unamortized origination cost	**22,701,469**	24,400,391
Assets held in trust (AHT) – interest receivables	**433,095**	433,095
	18,335,157,055	16,666,533,221
Less: Allowance for impairment	**82,020,184**	79,452,403
	18,253,136,871	16,587,080,818

6.1 Due from Parent Corporation

This account includes CMP amortization payments and other collections made by NHMFC for the account of SHFC. This account also comprises Management fee computed pursuant to the provision under Section VI of the Trust Agreement entered into by and between NHMFC and SHFC.

6.2 Interest Receivable

This refers to the interest accrued on various money placements at end of the year with various dates of maturity.

6.3 Due from Other Funds (AKPF)

This account refers to accumulated Personnel Services (PS) and other Administrative expenses of the fund paid in advance by SHFC during the year.

6.4 Due from Government Corporations

Housing and Urban Development Coordinating Council (HUDCC) – This account represents the total advances made by SHFC for the account of HUDCC pertaining to office building special assessments and other administrative expenses.

Social Security System – This represents the total advance payments made by SHFC on account of sickness and maternity benefit claims of employees.

6.5 Due from National Government Agencies (NGAs)

This account represents purchases of supplies from Department of Budget and Management – Procurement Service (DBM-PS) which are not yet delivered.

6.6 Receivables – Disallowances/Charges

This account consists of receivables from Officers and Employees set up in compliance to the Notice of Finality of Decision dated June 29, 2016 and October 26, 2016 issued by COA, for the disallowed P5,000 cash gift as part of the 13th month pay and the P20,000 additional Grocery Subsidy granted to SHFC employees in CY 2014, respectively. The remaining balance represents uncollected amount from resigned employees.

6.7 Mortgage Contract Receivable (MCR)

a. Current – This account amounting to P9.139 billion and P8.056 billion as at December 31, 2019 and 2018, respectively, includes CMP taken-out projects from the time of transfer up to the end of each year .

b. High Density Housing (HDH) – The amount of P5.098 billion and P4.491 billion as at December 31, 2019 and 2018, respectively, represents loan granted to the beneficiaries of High Density Housing Program (HDHP) payable in 30 years.

This account also represents draw down releases to various projects intended for HDHP beneficiaries.

c. Past due – The account amounting to P2.812 billion and P2.813 billion as at December 31, 2019 and 2018, respectively, represents the past due portion of the loan at the time of transfer up to December 31, 2019. This also includes CMP projects taken-out from 1989 to 1993, which were retained by NHMFC but eventually transferred to SHFC with a monetary value of P621 million representing outstanding principal loan balances as at December 31, 2009. The transferred loan balances were based on the Community Association's ledger subject to adjustments upon the determination of the actual outstanding principal balance that should be based on the member beneficiaries (MBs) loan ledgers.

d. Restructured interest – bearing principal – This account amounting to P644.080 million and P675.413 million as at December 31, 2019 and 2018, respectively, refers to delinquent borrowers who availed of the Restructuring Program offered by SHFC, in accordance to Republic Act (RA) No. 9507, otherwise known as the 2008 Socialized and Low Cost Housing Loan Restructuring Act of 2008, a rescue package for housing loan borrowers.

e. Restructured – noninterest – bearing principal – This account amounting to P198.439 million and P214.065 million as at December 31, 2019 and 2018, respectively, refers to loans with unpaid interests availed by delinquent borrowers who also availed the Restructuring Program offered by SHFC.

f. Items in litigation – This represent the outstanding balance of receivables from delinquent Community Associations transferred to the Legal Department for foreclosure and with petitions already filed in court. Said outstanding balance is the original amount transferred from NHMFC.

6.8 Assets held in trust (AHT) – Insurance Receivables

This consists of the general ledger balances transferred from NHMFC as at September 30, 2005. The balance of this account increases whenever there is renewal of the Mortgage Redemption Insurance (MRI) coverage advanced by SHFC for qualified Community Associations. The balance reduces upon collection of insurance repayments from MBs which can be determined only upon proper posting of amortization payments to MBs ledgers.

6.9 Unamortized Mortgage Origination Cost

This stands for the unamortized portion of the Origination and Appraisal Cost which is treated as outright expense.

6.10 Loans Receivable

This represents the car and calamity loan availed by SHFC officers and employees in the amounts of P22.918 million and P0.638 million as at December 31, 2019 and P22.457 million and P1.177 million as at December 31, 2018, respectively, which are payable in 10 years.

6,11 Assets held in trust (AHT) – Interest Receivables

This consists of interest receivable earned from AHT – insurance receivables.

6.12 Allowance for Impairment

Movements in the allowance for impairment for mortgage contract receivable are as follows:

	Balance, January 1, 2018	Additional Provision	Recovery/ Reversal	**Balance, December 31, 2019**
Mortgage contracts receivable				
Current accounts	7,479,041	533,385	0	**8,012,426**
Past due accounts				
> 3 months – 12 months	4,835,608	2,009,300	0	**6,844,908**
> 12 months – 3 years	11,782,338	0	(1,947,848)	**9,834,490**
> Over 3 years	50,660,252	1,972,944	0	**52,633,196**
Items in litigation	4,695,164	0	0	**4,695,164**
	79,452,403	4,515,629	(1,947,848)	**82,020,184**

7. INVENTORIES

This account consists of:

	2019	2018
Inventory held for consumption		
Office supplies inventory	**1,496,487**	2,065,312
Accountable forms, plates and stickers	**203,738**	200,873
Drugs and medicines inventory	**22,271**	17,083
Other supplies and materials inventory	**11,497**	0
Semi-expendable furniture and fixtures	**1,669,955**	728,904
Semi-expendable office equipment	**1,193,157**	887,126
Semi-expendable IT equipment	**666,342**	249,496
Semi-expendable other machinery and equipment	**230,916**	0
Semi-expendable communication equipment	**152,961**	26,100
Semi-expendable books	**6,582**	6,582
	5,653,906	4,181,476

8. OTHER CURRENT ASSETS

The account consists of:

	2019	2018
Advances to contractors	**431,437,863**	346,870,596
Guaranty deposits	**3,041,833**	2,971,584
Advances to special disbursing officer	**1,572,740**	1,940,356
Prepayments	**956,803**	936,807
Advances to officers and employees	**268,168**	83,000
Other deposits	**80,982,123**	0
	518,259,530	352,802,343

8.1 Advances to Contractors

This refers to amount paid in advance as mobilization fee to contractors for HDH projects which shall be deducted from the progress billing based on the percentage of completion of the project.

8.2 Guaranty Deposits

This account represents guaranty fees for SHFC's rental of Regional Offices and warehouse amounting to P3.042 million and P2.972 million as at December 31, 2019 and 2018, respectively.

8.3 Advances to Special Disbursing Officer

This account is used to recognize the amount granted to SHFC's accountable officers and employees for special purpose/time-bound undertakings to be liquidated within a specified period.

8.4 Prepayments

This includes payments in advance consisting of rent and insurance to be amortized for one year.

8.5 Advances to Officers and Employees

This account is used to recognize amount advanced to officers and employees for official travel.

8.6 Other Deposits

This account includes amount paid in advance or 20% down payment for the properties to be acquired from the Bangko Central ng Pilipinas amounting to P79 million and also includes amount paid in advance to suppliers for acquisitions with cash on delivery terms of payment amounting to P2 Million.

9. INVESTMENT PROPERTY

The account balances amounting to P1.790 billion and P1.406 billion as at December 31, 2019 and 2018, respectively, represent land acquired for building construction and site development for use of ISFs under usufruct arrangement with HDHP beneficiaries. These are carried at acquisition cost plus costs incurred for site development and home building. Disclosure for the fair value of the investment property is not possible due to lack of appraiser to date. However, SHFC is intending to engage the services of external appraisers for fair value measurements for the following year.

SHFC Corporate Circular No. 13-026 on HDH guidelines provides for the implementation framework of SHFC's participation in the priority P50 billion Informal Settler Families (ISF) Housing Program for the relocation of ISF residing in danger areas and waterways in Metro Manila. To further strengthen said corporate objective, Corporate Circular HDH No.14-005 Series of 2014 was made pertaining to the acquisition of property by SHFC and usufruct under the HDH Program. Through these circulars, as affirmed through Board Resolution No. 391, series of 2014 and under its Articles of Incorporation and by-laws, SHFC is fully empowered to pursue the acquisition of property in its own name and for the eventual disposition to the CAs, or entering into a usufruct arrangement, for the implementation of the HDHP.

10. PROPERTY AND EQUIPMENT

The details of the account are shown below:

	Buildings and Other Structures	Leased Assets Improvements, Buildings	Furniture, Fixtures & Books	Machinery and Equipment	Construction in Progress-Buildings and Other Structures	Motor Vehicles	Total
Cost							
January 1, 2019	201,330,000	26,683,004	3,627,253	68,200,683	0	27,503,788	327,344,728
Adjustments	0	(1,166,821)	0	0	0	0	(1,166,821)
Additions	0	1,840,721	367,977	3,428,824	15,996,144	0	21,633,666
December 31, 2019	201,330,000	27,356,904	3,995,230	71,629,507	15,996,144	27,503,788	347,811,573
Accumulated Depreciation							
January 1, 2019	(80,023,083)	(13,796,021)	(1,642,126)	(32,499,567)	0	(17,045,107)	(145,005,904)
Depreciation	(6,781,868)	(1,506,619)	(212,946)	(6,167,550)	0	(1,799,004)	(16,467,987)
December 31, 2019	(86,804,951)	(15,302,640)	(1,855,072)	(38,667,117)	0	(18,844,111)	(161,473,891)
Net Book Value December 31, 2019	**114,525,049**	**12,054,264**	**2,140,158**	**32,962,390**	**15,996,144**	**8,659,677**	**186,337,682**
Cost							
January 1, 2018	201,330,000	19,522,839	3,216,437	37,849,245	0	20,289,918	282,208,439
Adjustments	0	(20,000)	0	0	0	0	(20,000)
Additions	0	7,180,165	410,816	30,351,438	0	7,213,870	45,156,289
December 31, 2018	201,330,000	26,683,004	3,627,253	68,200,683	0	27,503,788	327,344,728
Accumulated Depreciation							
January 1, 2018	(73,241,215)	(12,789,807)	(1,393,241)	(26,348,804)	0	(15,213,564)	(128,986,631)
Depreciation	(6,781,868)	(1,006,214)	(248,885)	(6,150,763)	0	(1,831,543)	(16,019,273)
December 31, 2018	(80,023,083)	(13,796,021)	(1,642,126)	(32,499,567)	0	(17,045,107)	(145,005,904)
Net Book Value December 31, 2018	**121,306,917**	**12,886,983**	**1,985,127**	**35,701,116**	**0**	**10,458,681**	**182,338,824**

11. INTANGIBLE ASSETS

The details of this account are shown below:

	2019	2018
Cost	**8,149,129**	6,917,129
Accumulated amortization	**(6,874,105)**	(5,565,487)
Net book value	**1,275,024**	1,351,642

12. DEFERRED TAX ASSETS

This account refers to the P45.805 million and P45.035 million deferred taxes for the year 2019 and 2018, respectively, computed after adjustments effecting the temporary and permanent differences during each year (see Note 26.2).

13. OTHER NON-CURRENT ASSETS

This account refers to assets held in trust on AKPF. The AKPF was previously under the administration of the NHMFC. Due to the passage of EO No. 272, the management of the Amortization Support and Developmental Financing Programs of AKPF was transferred to SHFC in 2005.

This account is treated in the books of SHFC in the same manner and procedure it was previously treated in the books of NHMFC wherein periodic increment and reduction of said account, as a result of its operations, are taken up as credit and debit to *Trust Liabilities* account. (See Note 16)

The Fund balance amounted to P552.560 million and P549.874 million as at December 31, 2019 and 2018, respectively. Details are as follows:

	2019	2018
Cash and cash equivalents	**315,638,020**	310,755,953
Receivable – non – current	**67,441,124**	68,493,490
Receivable – current	**4,770,478**	10,676,632
Property and equipment, net	**153,437**	179,310
Other non-current assets	**189,838,167**	180,869,876
Intra-agency payables	**(19,527,643)**	(15,132,593)
Inter-agency payables	**(5,003,469)**	(4,734,684)
Other payables	**(750,009)**	(1,234,107)
	552,560,105	549,873,877

14. FINANCIAL LIABILITIES

This account consists of:

	2019	2018
Current:		
Accounts payable	**1,216,168,542**	1,166,587,672
Forward		
Insurance/reinsurance premium payable	**53,878,380**	47,227,140
Due to officers and employees	**77,463**	110,201
	1,270,124,385	1,213,925,013
Non-current:		
Loans payable – domestic (office building and parking space)		
SHFC	**21,006,305**	30,756,112
Housing and Urban Development Coordinating Council (HUDCC)	**8,901,043**	13,032,349
3rd Floor	**9,607,155**	12,025,541
Parking Space (8)	**1,527,052**	1,765,967
Parking Space (5)	**806,668**	967,312
	41,848,223	58,547,281

14.1 Accounts Payable

This refers to the remaining 50 per cent of CMP loan proceeds and origination fees retained by SHFC pending compliance with other requirements. The 50 per cent partial release of loan proceeds is implemented based on NHMFC Board Approved Resolution No. 3149, series of 2001. This account also includes perfected contracts with suppliers amounting to P3.422 million and P13.775 million as at December 31, 2019 and 2018, respectively.

14.2 Insurance/Reinsurance Premium Payable

This account refers to one-year insurance premium paid in advance to SHFC by MBs through Community Associations (CAs) and accordingly remitted upon enrollment to MRI Pool.

14.3 Loans Payable – Domestic

This account amounting to P41.848 million and P58.547 million for the years 2019 and 2018 represents the cost of the building and other structures acquired from Bangko Sentral ng Pilipinas (BSP) less the principal portion of the monthly amortization payments .

15. INTER-AGENCY PAYABLES

This account consists of:

	2019	2018
Due to parent corporation (NHMFC)	**18,867,978**	18,867,978
Due to BIR	**4,366,667**	5,468,410
Due to Treasurer of the Philippines	**2,688,072**	0
Income tax payable	**1,427,233**	0
Due to Pag-IBIG	**255,262**	188,010
Due to SSS	**194,877**	140,932
Due to Philhealth	**119,156**	116,918
	27,919,245	24,782,248

15.1 Due to Parent Corporation (NHMFC)

This account includes expenses for personal services, administrative and operating expenses, retirement benefits, and renewal/enrollment of CMP accounts at Pag-IBIG MRI Pool advanced by NHMFC as provided for in the Trust Agreement.

15.2 Due to BIR

This account represents the taxes withheld from payment of employees' compensation, origination fees, honoraria, taxes withheld at source and on government money payments including provision for corporate income tax for the year.

15.3 Due to Treasurer of the Philippines

This account represents the Interest Income on deposits (net of tax) earned from the DOTr Fund and DILG Fund to be remitted to the Bureau of the Treasury as provided in the memorandum of agreement between SHFC and DOTr/DILG.

16. TRUST LIABILITIES

The account consists of:

	2019	2018 (As restated)
Current:		
Performance warranty	**4,212,314**	4,167,564
Bidders bonds	**503,396**	503,396
	4,715,710	4,670,960
Non-current:		
NHMFC	**14,756,822,155**	14,390,009,247
DOTr	**3,000,000,000**	3,000,000,000
AKPF (See Note 13)	**552,560,105**	549,873,877
Other trust liabilities	**360,360,000**	360,360,000
	18,669,742,260	18,300,243,124

16.1 National Home Mortgage Finance Corporation (NHMFC)

The transfer of the CMP accounts to SHFC was initially implemented through the transfer of the cash balance as at September 30, 2005 of P532 million on November 10, 2005 and the turnover of the outstanding principal loan balance of the mortgages taken-out from 1994 onwards. Said conveyance correspondingly required the transfer of the General Ledger (GL) balances of certain accounts related to the program. In addition, the transfer also considered the portion of the GL balances pertaining to mortgages turned over to SHFC and to those retained by NHMFC.

The CMP Mortgages from 1989 to 1993 with a total outstanding principal loan balance of P621 million as at December 31, 2009, which were retained by NHMFC, were eventually transferred to SHFC. This amount is temporarily lodged under the Loans Installment Receivable (LIR) – current account but was later reclassified to LIR – past due account. Details of this account are as follows:

	2019	2018 (As restated)
Cash	**(808,273,168)**	467,928,931
Loan installment receivable	**12,128,274,114**	11,107,100,650
Past due loan installment receivables	**2,750,042,775**	2,750,042,775
Retained earnings balance for transfer to NHMFC	**428,010,179**	61,197,271
Land	**278,535,118**	152,666,993
Notes receivable – National Housing Authority	**200,000,000**	200,000,000
Interest income	**165,678,128**	165,678,128
Advances to contractors	**159,081,662**	52,302,537
Origination and appraisal cost	**156,722,265**	140,008,915
Insurance receivable	**119,762,108**	119,762,108
Interest receivables	**72,873,957**	72,873,957
Items in litigation	**50,925,357**	50,925,357
Unamortized mortgage origination cost	**50,479,961**	50,479,961
Origination fee payable	**20,248,206**	22,177,170
Service fee incentives	**5,648,600**	5,648,600
Technical subsidy	**1,085,672**	687,000
Other professional fees	**3,500**	3,500
Accounts payable – MCR	**(788,472,527)**	(797,927,140)
Undistributed collections	**(150,012,482)**	(150,012,482)
Guaranty deposits payable	**(72,451,321)**	(70,720,845)
Insurance payable	**(4,800,627)**	(4,647,805)
Due to BIR (Withholding tax payable)	**(3,848,107)**	(3,475,119)
Advances from borrowers	**(1,598,646)**	(1,598,646)
Performance warranty payable	**(1,092,569)**	(1,092,569)
	14,756,822,155	14,390,009,247

16.2 Department of Transportation (DOTr)

The Trust Agreement was entered into by and between the DOTr and SHFC with an initial amount of P3 billion pesos (First Tranche) transferred to SHFC on February 20, 2018 to finance the resettlement program for the Philippine National Railways South Commuter Project.

16.3 Other Trust Liabilities

This account pertains to a fund granted by Department of Social Welfare and Development (DSWD) and Department of the Interior and Local Government (DILG) and released to SHFC amounting to P10.36 million and P350 million, respectively. On October 05, 2015, a Trust Agreement was entered into by and between the DSWD and SHFC. The P10.36 million was received on July 01, 2016 and the fund from the Emergency Assistance Program of DSWD was earmarked for the 148 ISF victims of typhoon Sendong in Cagayan de Oro City to be used solely for the purchase of housing materials. SHFC will still pursue the renewal of the Trust Agreement. Also, on June 27, 2016, a Trust Agreement was entered into by and between the DILG and SHFC, of which the P350 million fund was intended for HDHP projects and was deposited and maintained in a separate fund account (HDHP II) in order not to co-mingle with other funds.

17. DEFERRED CREDITS/UNEARNED INCOME

This account consists of:

	2019	2018
Deferred income	**198,297,594**	213,923,764
Deferred credits	**39,844,341**	35,713,035
	238,141,935	249,636,799

17.1 Deferred Income

This account pertains to temporary log on interest unpaid upon the application for restructuring payable within 30 years. Deferred Income is debited and Interest Income is recognized (credit) upon collection.

17.2 Deferred Credits

This account pertains to the principal portion of amortization payments of SHFC for the office spaces occupied and already paid by HUDCC in advance. Upon full payment of the loan the account will be closed and corresponding asset will be transferred to HUDCC.

18. OTHER PAYABLES

This account consists of:

	2019	2018
Undistributed collections	**394,075,873**	430,326,320
Other payables	**1,091,678,909**	969,311,180
	1,485,754,782	1,399,637,500

18.1 Undistributed Collections

This account refers to amortization payments not yet applied/posted to individual borrower's account as of statement date due to timing differences and other related concerns. It consists of accounts for clearing under the following categories:

	2019	2018
Un-posted amortization payments from remedial accounts	**149,290,757**	131,033,287
Un-posted amortization payments from HDH projects	**97,815,571**	54,897,907
Un-categorized amortization payments	**63,490,271**	83,570,463
No abstract of collections	**40,617,287**	31,934,178
Non-transmittal of collection documents by NHMFC	**14,878,645**	14,878,645
Collections from MBs who availed of the 1-year updating scheme	**12,930,463**	98,854,050
Not in master list	**3,876,084**	8,627,171
Un-posted amortization payments from restructured accounts	**2,392,626**	437,377
Un-posted amortization payments from express lane projects	**0**	5,272,040
Others	**8,784,169**	821,202
	394,075,873	430,326,320

The approval of in-house restructuring program will serve as guidelines for remedial accounts to begin the process of documentation up to posting and reversal of amortization payments. Payments categorized under *No abstract of collection* and *Not in the master list* need compliances before collections can be cleared and posted.

18.2 Other Payables

This account consists of:

a. Guaranty Deposits Payable

This account refers to three months and six months cash deposits required for old and new originators respectively, pursuant to Corporate Circular CMP No. 003, which is calculated based on the total monthly amortization payment plus one-year MRI premiums.

Without prejudice to the first amortization to be paid by the CAs/MBs a month after the date of take out, this deposit shall be treated as a regular advance payment on the same date.

Said advance payment shall be regularly credited as monthly amortization payment in cases of deficient or no payments for the month.

b. Advances from Borrowers

This account pertains to the amortization payments in excess of the amount due for the current period but is not deducted from the principal balance upon distribution of amortization collections.

c. Origination Fee Payable

This account refers to the 50 per cent origination fee retained by SHFC pending originators' full compliance with requirements.

d. Insurance Payable

This account refers to the one-year insurance premium paid in advance to SHFC by MBs through CAs and accordingly remitted upon enrollment to MRI Pool.

19. EQUITY

19.1 Capital Stock

SHFC has an authorized capital stock of P100 million divided into 100,000 shares with a par value of P1,000 each. 25,000 shares were subscribed by the NHMFC, of which, 10,000 shares were paid for P10 million and the balance of P15 million remains unpaid.

The paid-in portion of authorized capital stock is P10 million and transferable pursuant to the distribution mandated by EO No. 272. Of this amount, P9.989 million was paid up by the NHMFC and the remaining amount by various stockholders for and in behalf of the Government of the Philippines.

19.2 Retained Earnings

Appropriated retained earnings include (a) retained earnings due for transfer to NHMFC as addition to Trust Liability pursuant to the amended Trust Agreement and (b) Funds appropriated for HDH Project. RE balance for transfer to NHMFC amounted to P366.813 million and P61.197 million for CYs 2019 and 2018, respectively. (See Note 16.1)

Prior period adjustments include the amount of P366.813 million pertaining to RE balances for transfer to NHMFC from CYs 2005 to 2017. It also includes Interest Income due to BTr, Percentage Tax set up and Travel Expense totaling P5.924 million. (See Note 16.1)

20. SERVICE AND BUSINESS INCOME

This account consists of:

	2019	2018
Service Income		
Interest income – loans and receivables	**387,330,032**	342,212,686
Fines and penalties – business income	**254,860,227**	215,910,547
Business income		
Other business income		
Service Fee	**18,146,153**	12,950,768
Miscellaneous income	**522,215**	570,714
	660,858,627	571,644,715

Other business income account represents:

Service Fee which represents the 20 per cent service fee earned by SHFC from enrollment of the MBs to the MRI Pool particularly interest income from loans and receivables, other business income and its fines and penalties.

Miscellaneous income account amounting to P0.522 million and P0.571 million for the years 2019 and 2018 includes:

a. income from penalty on late amortization payments of the MBs;
b. other miscellaneous income derived from processing fee of the application for penalty condonation and substitution;
c. photocopy and recovery of vat payments made previously on deferred income
d. interest from calamity loans granted to officers and employees affected by then typhoon Ondoy;
e. surcharges from suppliers on late deliveries; and
f. the recognition of refund of excess payments amounting to P500 and below as miscellaneous income per Office Order No. 07-0075, series of 2007 dated May 10, 2007.

21. PERSONNEL SERVICES

This account consists of:

	2019	2018
Salaries and wages - regular	**136,822,717**	120,389,086
Other compensation		
Year-end bonus	**11,692,378**	10,189,640
Overtime and night pay	**4,644,006**	5,383,958
Personnel economic relief allowance	**5,474,748**	5,297,097
Representation allowance	**4,767,500**	4,785,772
Transportation allowance	**4,762,876**	4,390,827
Clothing/uniform allowance	**1,386,189**	1,311,600

(Forward)

	2019	2018
Cash gift	**1,165,250**	1,110,500
Honoraria	**199,833**	59,042
Other bonuses and allowances	**69,537,119**	65,897,901
	103,629,899	98,426,337
Personnel benefit contributions		
Provident/welfare fund contributions	**20,616,338**	17,540,639
Retirement and life insurance premiums	**4,101,409**	3,399,587
PhilHealth contributions	**1,372,910**	1,341,187
Pag-IBIG contributions	**254,400**	514,379
Employees compensation insurance premiums	**82,803**	79,217
	26,427,860	22,875,009
Other personnel benefits		
Retirement gratuity	**3,456,000**	2,324,710
Terminal leave benefits	**12,306,854**	7,699,620
	15,762,854	10,024,330
	282,643,330	251,714,762

22. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

	2019	2018
Traveling expenses		
Traveling expenses – local	**21,492,352**	23,112,146
Traveling expenses – foreign	**385,266**	2,185,308
	21,877,618	25,297,454
Training and scholarship expenses		
Training expenses	**15,337,906**	9,616,075
	15,337,906	9,616,075
Supplies and materials expenses		
Office supplies expenses	**7,736,110**	6,552,166
Fuel, oil and lubricants expenses	**2,619,183**	2,361,215
Accountable forms expenses	**353,855**	278,196
Semi-expendable furniture, fixtures and books expenses	**188,800**	23,631
Drugs and medicines expenses	**78,057**	57,007
Medical, dental, and laboratory supplies expenses	**7,009**	0
Semi-expendable machinery and equipment expenses	**0**	8,595
Other supplies and materials expenses	**351,592**	357,366
	11,334,606	9,638,176

(Forward)

	2019	2018
Utility expenses		
Electricity expenses	**7,301,662**	7,026,359
Water expenses	**741,089**	694,525
	8,042,751	7,720,884
Communication expenses		
Telephone expenses	**1,997,354**	2,303,902
Internet subscription expenses	**1,587,319**	1,247,770
Postage and courier services	**1,521,967**	1,698,720
Cable, satellite, telegraph and radio expenses	**39,600**	0
	5,146,240	5,250,392
Confidential, intelligence and extraordinary expenses		
Discretionary expenses	**2,990,135**	0
Extraordinary and miscellaneous expenses	**505,488**	670,504
	3,495,623	670,504
Professional services		
Consultancy services	**7,899,760**	6,667,820
Legal services	**132,720**	280,650
Auditing services	**22,249**	0
Other professional services	**1,446,862**	685,683
	9,501,591	7,634,153
General services		
Clerical services	**103,028,819**	55,257,840
Security services	**9,928,957**	7,786,792
Janitorial services	**2,673,364**	2,713,469
Other general services	**4,964,909**	9,490,054
	120,596,049	75,248,155
Repairs and maintenance		
Repairs and maintenance – transportation equipment	**3,109,536**	2,452,232
Repairs and maintenance – machinery and equipment	**491,943**	249,680
Repairs and maintenance – furniture and fixtures	**0**	5,500
Repairs and maintenance – semi-expendable information and communication technology equipment	**0**	2,800
Repairs and maintenance – leased assets improvements	**218,626**	0
Repairs and maintenance – buildings and other structures	**52,000**	0
Repairs and maintenance – semi-expendable furniture and fixtures	**5,100**	0
	3,877,205	2,710,212

(Forward)

	2019	2018
Taxes, insurance premiums and other fees		
Taxes, duties and licenses	**46,590,257**	42,363,220
Insurance expenses	**869,299**	739,109
Fidelity bond premiums	**169,703**	330,727
	47,629,259	43,433,056
Other maintenance and operating expenses		
Rent/lease expenses	**10,226,696**	8,610,609
Representation expenses	**8,023,938**	5,891,358
Litigation/acquired assets expenses	**6,750,323**	98,417
Major events and conventions expenses	**6,504,578**	6,069,869
Advertising, promotional and marketing expenses	**3,630,316**	3,928,968
Directors and committee members' fees	**2,277,000**	2,181,000
Donations	**2,459,884**	20,000
Printing and publication expenses	**743,930**	250,477
Financial assistance/subsidy/contribution	**174,172**	0
Subscription expenses	**121,578**	171,401
Transportation and delivery expenses	**31,149**	77,005
Membership dues and contributions to organizations	**15,420**	1,200
Other maintenance and operating expenses	**24,572,135**	23,589,879
	65,531,119	50,890,183
	312,369,967	238,109,244

23. NON-CASH EXPENSES

This account consists of:

	2019	2018
Depreciation		
Depreciation – buildings and other structures	**6,781,868**	6,781,868
Depreciation – machinery and equipment	**6,167,550**	6,150,762
Depreciation – transportation equipment	**1,799,003**	1,831,544
Depreciation – leased assets improvements	**1,506,620**	1,006,214
Depreciation – furniture, fixtures and books	**212,946**	248,885
	16,467,987	16,019,273
Amortization		
Origination and appraisal cost	**1,698,922**	0
Amortization – intangible assets	**1,308,618**	310,036
	3,007,540	310,036
Impairment loss		
Impairment loss – loans and receivables	**2,567,781**	1,609,913
	2,567,781	1,609,913
	22,043,308	17,939,222

24. FINANCIAL EXPENSES

This account consists of:

	2019	2018
Interest expenses	**2,953,686**	3,916,860
Bank charges	**1,794,619**	1,894,064
	4,748,305	5,810,924

25. OTHER NON-OPERATING INCOME

This account consists of:

	2019	2018
Interest income – notes	**181,868,285**	140,138,443
Interest income – bank deposits	**3,282,020**	6,010,633
	185,150,305	146,149,076

25.1 Interest Income – Notes

This account represents interest earned at an average prevailing interest rates of 3.340 per cent per annum for Investments in Treasury Bills.

25.2 Interest Income – Bank Deposits

This account represents interest earned at prevailing interest rates of 1.40 to 1.85 per cent per annum for the time deposit and 0.10 per cent for the current account.

26. CURRENT AND DEFERRED TAXES

This account consists of:

26.1 Regular Corporate Income Tax (RCIT)

The components of RCIT for CY 2019 are as follows:

	2019	2018
Net income (loss) before income tax	**224,204,022**	204,219,639
Non-deductible expense	**36,652,473**	29,569,291
Interest income on investment/bank deposits	**(185,150,305)**	(146,149,076)
Accounting income subject to tax	**75,706,190**	87,639,854
Loan loss provision	**2,567,781**	1,609,913
Net taxable income	**78,273,971**	89,249,767
Tax rate	**30%**	30%
Current tax expense	**23,482,191**	26,774,930

26.2 Deferred Tax Asset

Income tax benefit was computed as follows:

	2019	2018
Deferred tax asset – beginning	**45,034,947**	44,551,973
Temporary differences	**2,567,781**	1,609,913
Tax rate	**30%**	30%
	770,334	482,974
Deferred tax asset – ending	**45,805,281**	45,034,947
Income tax expense	**22,711,857**	26,291,956
As reported based on 30% of net taxable income	**23,482,191**	26,774,930
Income tax benefit	**770,334**	482,974

In CY 2019 and CY 2018, SHFC claimed itemized deductions in computing for its income tax due.

27. NET ASSISTANCE/SUBSIDY INCOME FROM NATIONAL GOVERNMENT

The following are the approved funding allocation and releases from the Department of Budget and Management (DBM):

	2019	2018
Approved funding allocation from DBM Fund releases during the year	**752,827,898**	612,462,120
Financial assistance to Non-Government Organizations (NGOs) and People's Organizations (POs) for technical assistance and service fee	**(25,321,069)**	(22,214,937)
Net assistance/Subsidy income from National Government	**727,506,829**	590,247,183

This is apart from the CMP funding received from NHMFC.

28. LEASES

The related rent expense amounted to P10.227 million and P8.611 million for the years ended December 31, 2019 and 2018, respectively. (see Note 22)

Operating Lease

SHFC is a lessee of office spaces for Regional Extension Units (REUs) staff. The lease term is for a period of three years and renewable thereafter.

The minimum rentals payable under these non-cancellable operating lease as at December 31, 2019 are as follows:

	2019
Within one year	9,049,052
Beyond one year but not later than three years	3,918,711
	12,967,763

Finance Lease

SHFC is a lessee with lease term of 15 years, the leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognized in the Statement of Financial Position as plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognized in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

The minimum rentals payable under these non-cancellable operating lease as at December 31, 2019 are as follows:

	2019
Within one year	20,779,355
Beyond one year but not later than five years	25,381,009
	46,160,364

29. RELATED PARTY DISCLOSURE

As of December 31, 2019, the composition of the Board of Directors is as follows:

Board Position	Name	Position from Other Agencies
1. Chairman	Eduardo D. Del Rosario	Chairman, Department of Human Settlement and Urban Development
2. Vice-Chairman	Atty. Arnolfo Ricardo B. Cabling	President, SHFC
3. Member	Usec. Epimaco V. Densing III	Under Secretary, DILG
4. Member	Usec. Bayani Hidalgo Agabin	Under Secretary, Department of Finance
5. Member	Dr. Felixberto Bustos, Jr.	President, NHMFC
6. Member	Atty. Ryan S. Lita	Director, DBM
7. Member	Lyndon B. Catulong, Sr.	Private Sector
8. Member	Atty. Emiliano C. Reyes	Private Sector
9. Member	Ronald R. Barcena	Private Sector
10. Member	George Jt D. Aliño, II	Private Sector

Key Management Personnel Remuneration and Compensation

The key Management personnel of SHFC are the President, Executive Vice-President, five Vice-Presidents, the various Managers and Division Chiefs of the operating and support groups.

Meanwhile, the total remuneration (per diem) received by the members of the Board of Directors amounted to P2,277,000 and P2,181,000 for CY 2019 and CY 2018, respectively.

30. COMMITMENTS AND CONTINGENCIES

Legal Claims

The account consists of the garnished peso time deposit at DBP amounting to P70.931 million enforced by an Urgent Ex parte Motion from case AC-973-RCMB-NCR-LVA-024-01-09-2014 titled SOHEAI vs. SHFC in 2015. This was disclosed in the CY 2015 notes under contingencies.

None of these contingencies are discussed here in detail so as not to prejudice SHFC's position in the related disputes.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES

SHFC's principal financial instruments comprise cash, receivables, due from a related party, investment in securities, accounts payable and accrued expenses, and due to related parties. The main purpose of these financial instruments is to raise working capital for SHFC's operations.

Financial Risk Management

Credit Risk

Mortgage Contracts Receivable (Community Mortgage Program Loans)

CMP loans receivable are 25-year, six per cent interest loans secured by mortgage on the land subject of the loan. The loans are given to qualified CAs made up mostly of poor and underprivileged families to assist them in purchasing the private land where they are informally settled or buying a relocation site.

The property, subject of loan and mortgage, is registered under the name of the CA. The property is covered by a subdivision plan and each lot in the subdivision plan is assigned to a member under a lease purchase agreement (LPA) with the association. The LPAs of the associations are assigned to SHFC as additional security for the community loan.

Credit Policy for MCRs (CMP Loans)

The CMP Loan Program follows the legal mandate of the Urban Development and Housing Act and is therefore not in conformity with the credit standards prescribed by the BSP for financial institutions under its supervision. In lieu of the normal credit standards, the program requires CA members to deposit in advance savings equivalent to three months amortization as proof of capacity and willingness to pay.

The exposure to credit risk on SHFC's receivables relates primarily to the inability of customers to fully settle the unpaid balance of accounts receivables and other claims owed to SHFC.

SHFC generally ascertains credit standing of counterparties before entering into a business transaction. The examination of credit standing includes the following: (1) financial resources (2) ownership structure; and (3) quality of Management.

SHFC does not have any significant concentration of credit risk. Its maximum exposure to credit risk is equivalent to carrying value of its financial assets.

Insurance

For the duration of the loan, there shall be a mortgage insurance on the lives of the principal borrowers as identified in the masterlist of members on a yearly renewable term basis. The insurance premiums shall be included in the monthly amortizations of the members. An equivalent of one-year mortgage insurance premium shall be required from the CAs in the form of cash deposit prior to the release of the loan proceeds.

Security

SHFC follows an appraisal procedure and policy that is market-based and allows a maximum loan to value ratio of 100 per cent.

Collection

The Mortgage Contract Receivable (Community Mortgage Program Loans) are covered by a collection agreement with the CAs. The CAs collects the monthly amortizations from its members and remits these to SHFC.

The credit quality by class of MCR based on SHFC's aging of provisions are detailed in the following table.

	Balance, January 1, 2019	Additional Provision	Recovery/ Reversal	**Balance, December 31, 2019**
Mortgage contracts receivable	16,300,197,436	2,361,193,438	(718,517,263)	**17,942,873,611**
Current accounts	(7,479,041)	(533,385)	-	**(8,012,426)**
Past due accounts				
> 3 months – 12 months	(4,835,608)	(2,009,300)	-	**(6,844,908)**
> 12 months – 3 years	(11,782,338)	-	1,947,848	**(9,834,490)**
> Over 3 years	(50,660,252)	(1,972,944)	-	**(52,633,196)**
Items in litigation	(4,695,164)	-	-	**(4,695,164)**
	(79,452,403)	(4,515,629)	1,947,848	**(82,020,184)**
	16,220,745,033	2,356,677,808	(716,569,415)	**17,860,853,427**

Liquidity Risk

Liquidity risk pertains to the risk that SHFC will encounter difficulty in meeting obligations associated with maturing obligations that are settled by delivering cash or another financial asset.

The total financial liabilities of SHFC excluding the statutory obligations such as tax liabilities, as at December 31, 2019 and 2018 are as follows:

	2019	2018
Financial liabilities	**1,270,124,385**	1,213,925,013
Deferred credits/unearned income	**238,141,935**	249,636,799
Other payables	**41,848,223**	58,547,281
	1,550,114,543	1,522,109,093

SHFC monitors its risk to a shortage of fund by analyzing the maturity date of its financial assets, including financial investments and amount of cash flow provided or used in operations.

Regulatory Framework

The operation of SHFC is also subject to the regulatory requirements of the Securities and Exchange Commission (SEC). Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

32. COMPLIANCE WITH TAX LAWS

Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 amending certain provisions of RR No. 21-2002, as amended and implementing Section 6(H) of the Tax Code of 1997 which authorize the Commissioner of Internal Revenue to prescribe additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying the tax returns. These regulations require that additional disclosures in the notes to financial statements shall be made to include information on taxes and license fees paid or accrued during the taxable year.

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

	2019	2018
Taxes and licenses		
Final tax paid on income	**36,652,473**	29,569,291
Income taxes withheld on compensation and final withholding taxes (1604-CF)	**30,061,858**	23,201,212
Corporate income tax	**23,482,191**	26,774,930
Creditable income taxes withheld (expanded)/ income payments exempt from withholding tax (1604-E)	**16,863,742**	4,253,816
Percentage tax	**6,536,509**	10,111,024
Real property tax	**1,896,777**	2,531,044
BIR registration	**500**	500
	115,494,050	96,441,817

The President signed into law Package 1 of the Tax Reform Acceleration and Inclusion Law on December 19, 2017, otherwise known as the "TRAIN Act" under RA No. 10963. One of the salient features of the TRAIN Act is the increase of the non-taxable personal income to P250,000 per year for compensation income earners and self-employed and/or professionals. This act took effect starting in January 2018.

Requirements under RR No. 19-2011

RR No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts of revenues reflected in the 2019 statement of comprehensive income.

Taxable Revenues

The composition of SHFC's taxable revenues for the period ended December 31, 2019 December 31, 2018 is presented below:

	2019	2018
Sale of services	**660,858,627**	571,644,696

Cost of Services

The amounts of SHFC's cost of services for the year ended December 31, 2019 and December 31, 2018 are as follows:

	2019	2018
Salaries and employee benefits	**282,643,330**	251,714,762

Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2019 and December 31, 2018 are as follows:

	2019	2018
Professional services	**112,530,410**	62,891,993
Other maintenance and operating expenses	**65,531,119**	50,890,182
Traveling expenses	**21,887,618**	25,297,454
General services	**17,567,230**	19,990,314
Depreciation	**16,467,987**	16,019,273
Training and scholarship expenses	**15,337,906**	9,616,075
Supplies and materials expenses	**11,334,606**	9,638,175
Taxes, insurance premiums and other fees	**10,976,785**	13,863,765
Utility expenses	**8,042,751**	7,720,885
Communication expenses	**5,146,239**	5,250,392
Financial expenses	**4,748,305**	5,810,924
Repairs and maintenance	**3,877,204**	2,710,213
Confidential, intelligence and extraordinary expenses	**3,495,623**	670,504
Amortization – intangible assets	**3,007,540**	310,036
	299,951,323	230,680,185

33. EVENTS AFTER THE REPORTING PERIOD

Overall risk to operations

The spread of COVID-19 has severely wedged economies locally. Various Government measures were undertaken to contain the spread of the virus, including lockdown, community quarantine, and deferment of construction projects, resulting in an economic slowdown.

The SHFC has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact.

Currently, it is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of operations of SHFC for future periods.

Management's plans to deal with the effects of the COVID-19 outbreak

The SHFC granted three-month moratorium on the payment of monthly amortizations on housing loans for all its projects nationwide due to the Enhanced Community Quarantine (EQC) in Luzon and the declaration of State of Calamity over the entire country amid the COVID-19 pandemic pursuant to SHFC Board Resolution No. 840, Series of 2020, effective March 16, 2020 until June 15, 2020.

The moratorium program is available to all projects/accounts HOAs, and MBs under the CMP and the HDH program nationwide, regardless of project/account status. This means that all projects/accounts, including those that are newly taken-out, whether updated or delinquent, are qualified to avail of the moratorium.

Effect of pandemic on the collectability of receivables

As a result of the grant of moratorium and/or deferment of payments, the loan term shall correspondingly extend by three months. For MBs who will reach the age of 70 years old during the extension of the loan term, they will no longer be covered by the MRI. The consent/agreement/conformity to the extension of the loan term shall be submitted by the HOAs or MBs to the SHFC within this year.

Payment of loan amortization will resume on June 16, 2020. The three months of deferred payments covered by the moratorium shall be paid within three months from the expiration of the loan term or immediately upon pre-termination or pre-payment of the account. On accounts in arrears, penalty shall be computed until March 15, 2020. No additional penalties shall be imposed until June 15, 2020.

For updated accounts, payments shall be treated as deposit to be applied to amortization due after the period of moratorium while for the delinquent accounts, payment shall be applied outright to arrearages before the effectivity of the moratorium.

Effect on Mortgage Redemption Insurance (MRI) coverage

The MBs are continuously covered by the MRI during the moratorium period. Unpaid MRI premiums, if any, shall be deducted from the MRI prepayment/advanced or excess payments upon full payment/settlement of the account. If the MRI prepayments/advanced or excess payments have been fully utilized, the unpaid MRI premiums shall be settled by the MB.

PART II

OBSERVATIONS AND RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. Undistributed Collections (UC) totaling P394.076 million remained un-posted to the Mortgage Contracts Receivable (MCR) account due to the absence of a policy on the proper and timely distribution of UC to the individual ledgers of the member-borrowers (MBs) concerned. Thus, the UC and the MCR under Other Payables and Receivables accounts, respectively are both overstated by the same amount as at December 31, 2019. Moreover, the General Ledger (GL) or controlling account for UC has a variance of P79.964 million against the Subsidiary Ledger (SL) balances. The misstatements and the variance affect the fair presentation of the account balances in the financial statements, contrary to Paragraph 15 of Philippine Accounting Standards (PAS) 1.

1.1 Paragraph 15 of PAS 1 – Presentation of Financial Statements states 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 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.*

1.2 The UC account refers to amortization payments from CYs 2008 to 2019 that have remained un-posted/unapplied to MCR and other affected accounts.

1.3 As disclosed in Note 18.1 to the Financial Statements, the account refers to amortization payments not yet applied/posted to individual borrower's account as of statement date due to timing differences and other related reasons, such as:

- Payments with no abstract of collections;
- Payments of MBs not in master list;
- Payments of MBs not yet in the database for High Density Housing (HDH) projects;
- Collections from MBs who availed of the 1-year updating scheme;
- Un-posted amortization payments from restructured accounts;
- Un-posted amortization payments from remedial accounts;
- Non-transmittal of collection documents by NHMFC; and
- Un-categorized amortization payments.

1.4 The one-year updating scheme based on Republic Act (RA) No. 9507 on Socialized and Low-Cost Housing Loan Restructuring Act of 2008 provides that collections under the said scheme will be posted upon completion of the billing and posting modules of the newly developed program. The approval of in-house restructuring program will serve as a guideline for remedial accounts to begin the process of documentation up to posting and reversal of amortization payments.

The scheme was approved by the members of the Board of Directors on May 24, 2013 and implemented through Corporate Circular No. 13-027 series of 2013.

1.5 Correspondingly, payments categorized under no abstract of collection should be verified first in the Community Association Information System (CAIS) Kiosk in order to ascertain the correct amount of amortization to be paid by the borrower while those not in the masterlist need compliance with the substitution process before collections can be cleared and posted.

1.6 Review of the accounts under UC showed the following balances as at December 31, 2019 and 2018 with their movements:

Particulars	December 31 2019	December 31 2018	Increase/(Decrease) Amount	Increase/(Decrease) %
Collections from:				
NHMFC	14,878,645	14,878,645	0	0
Restructured accounts	2,392,626	437,377	1,955,249	447
Accounts with site development Loan component	10,058	10,058	0	0
Express lane projects CMP (not in the database)	0	5,272,040	(5,272,040)	(100)
Unaccounted	63,490,271	83,570,463	(20,080,191)	(24)
MBs not in masterlist	3,876,084	8,627,171	(4,751,087)	(55)
MBs not yet in the database	7,170,818	0	7,170,818	100
Remedial accounts	149,290,757	131,033,287	18,257,470	14
HDH projects (not in database)	97,815,571	54,897,907	42,917,664	78
Payments without abstract of collection	40,617,287	31,934,178	8,683,109	27
Payments of MBs who availed of the one-year updating scheme (Condonation under RA No. 9507)	12,930,463	98,854,050	(85,923,587)	(87)
Others	1,603,292	811,144	792,148	98
	***394,075,872**	**430,326,320**	**(36,250,447)**	**(8.42)**

* Variance of 1 due to rounding off.

1.7 As shown in the above table, the balance of the UC account decreased by P36.250 million, or 8.42 per cent from that of last year's UC of P430.326 million.

1.8 The UC accumulated because not all payments are supported by a Remittance Report and Abstract of Collection reflecting the individual monthly payment by the MBs, contrary to the Collection Agreement entered into by the Community Associations (CAs) and SHFC.

1.9 There are also collections from the National Home Mortgage Finance Corporation (NHMFC) amounting to P14.879 million that are still unposted/unallocated to the individual ledgers of the MBs due to the absence of data/ledger of collections from the parent agency, NHMFC.

1.10 The Unaccounted UC amounting to P63.490 million refers to the accounts transferred by NHMFC to SHFC with no database of MBs which could be used as reference in the distribution or application of the amounts to the individual MB ledgers. The amount was reduced by P20.080 million, or 24 per cent in CY 2019.

1.11 Likewise, MB Accounts not in the Masterlist decreased by P4.751 million in CY 2019, or 55 per cent as compared to the increase of P1.049 million, or 14 per cent in CY 2018.

1.12 Moreover, there was an increase of UC for payments of MBs not yet in the database amounting to P7.171 million in CY 2019 which has no balance in the previous year. Such increase was due to the delay of processing MB accounts.

1.13 The CY 2019 UC is accounted as follows:

UC Balance - December 31, 2018	430,326,320
CY 2018 UC distributed/allocated in 2019	(121,808,771)
Balance	308,517,549
Undistributed for 2019	1,121,499,932
CY 2019 UC distributed/allocated in 2019	(1,035,941,609)
UC Balance - December 31, 2019	**394,075,872**

1.14 The table above shows that UC in CY 2018 amounting to P121.809 million, or only 28 per cent, was allocated in CY 2019 which is way below the 65 per cent commitment as recommended in audit in the previous year. The UC account for CY 2018 still has a remaining balance of P308.518 million as at December 31, 2019.

1.15 Further verification revealed that subsidiary ledger balances amounting to P314.112 million maintained by the Accounting Division are not reconciled with the controlling account or the general ledger balance of UC account amounting to P394.076 million. The variance of P79.964 million, or 20 per cent of the general ledger balance increased by P12.751 million or 19 per cent from the CY 2018 variance of P67.213 million. Details are shown below:

General ledger balance		394,075,872
Subsidiary ledger (data base):		
Remedial accounts	149,290,757	
High density project – no database	97,815,571	
Payments without Abstract of Collections	40,617,287	
One year updating of remedial accounts	12,930,463	
MBs not yet in the database	7,179,068	
MBs not in the Masterlist	3,876,084	
Restructured accounts	2,392,626	
Accounts with site development loan component	10,058	314,111,914
Variance		79,963,958
		20%

1.16 Validation disclosed that SHFC still has no established policy on the distribution/allocation of collections to the individual ledgers of MBs, however, through the implementation of the CAIS Kiosk and Portal (an interactive touch-screen interface), the processing of payments was reduced to 2 to 3 days.

1.17 The non-posting of the UC accounts amounting to P394.076 million to the MCR resulted in the overstatement of both the Payable and Receivable accounts affecting the fair presentation of the said accounts in the financial statements, contrary to PAS 1. Likewise, the variance of ₱79.964 million between the GL and the SL balances of the UC account, renders the account balance unreliable.

1.18 **We reiterated our prior years' recommendations in CYs 2010 to 2018 AARs that Management:**

a. **Submit work breakdown schedule to post and allocate UC for CY 2019 by at least:**

   i. **50 percent of the UC by CY 2020 and**
   ii. **50 percent of the UC by CY 2021.**

b. **Reconcile the variance between the SL and GL balances by at least:**

   i. **50 percent of the UC by CY 2020 and**
   ii. **50 percent of the UC by CY 2021.**

c. **Require the Information and Communication Technology Department (ICTD) to enhance the database to include the HDH Projects and all other accounts not yet in the database; and**

d. **Formulate written policy on the number of days within which to distribute/allocate payments made by MBs to avoid the accumulation of UC.**

1.19 Management commented that the Corporate Accounts Division was created to be responsible in the reconciliation of the accounts, to liaison with NHMFC and to undertake other related activities to address the COA observation. Specifically, the Division will be in charge in carrying out the activities enumerated in the hereunder SHFC action plan:

- For the NHMFC accounts, coordinate with NHMFC on the appropriate reconciliation previously done and require submission of electronic or photocopy of Daily Collection Reports (DCR) which will be used in the reconciliation activity;

- For remedial accounts, apply the newly approved restructuring loan scheme for 2020 under RA No. 9507 to those paying MBs;

- For UC under HDH, Finance and Comptrollership Department has already initiated piloting the posting of billing and payments using the advanced interim ledgering worksheet and outsourced the development of the system for HDH accounts; and

- For other related UCs, prepare periodic reversal; send out list of names and receipts to branches/collection units, and inform branches/collection unit to advise community associations or would-be-substitute to use MBs original account number.

1.20 Also, Management mentioned that the ICTD implemented the CAIS KIOSK and SHFC Portal facilities to generate Statement of Account (SOA) and Abstract of Collections (AOC) online which make available all relevant and necessary information of the HOAs and Member Beneficiaries, thus, avoid accumulation of un-posted/distributed collections. CAIS Kiosk is now already installed in SHFC head office, Cebu, Davao, General Santos, Cagayan de Oro and soon in Zamboanga.

1.21 During the exit conference, Management proposed for a 40 percent commitment for CY 2020 and 60 per cent for CY 2021 for the reversal of UC. For one year updating scheme, it was likewise proposed that the amounts collected be classified as a deposit since the actual reversal is made upon the expiration of the approved one-year period.

1.22 As a rejoinder, we stand by our recommendations that Management expedite the reconciliation and posting of UC account to the individual ledgers of the MBs to meet the target of 50 per cent reconciliation in CY 2020 and another 50 per cent in CY 2021, and formulate a policy on the number of days within which to manually distribute/allocate payments made by MBs for accounts not yet uploaded in the CAIS Kiosk and SHFC Portal Facilities to avoid the further accumulation of UC. The reclassification of the UC under the one year updating scheme to Customer Deposits is just a transfer of the balance in another liability account, hence, will not cure the accumulation of the UC accounts.

2. Absence of accounting policy on financial instruments that harmonizes with the provisions of the Philippine Financial Reporting Standard (PFRS) 9 with mandatory implementation effective January 1, 2019, pursuant to COA Resolution No. 2019 – 006 dated March 27, 2019, affects the fair presentation of the financial statements as provided under PAS 1.

2.1 The following are the pertinent provisions of PFRS 9, to wit:

4.1.1 Unless paragraph 4.1.5 applies, an entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

(a) the entity's business model for managing the financial assets and
(b) the contractual cash flow characteristics of the financial asset.

5.1.1 Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

5.1.2 After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1.1 - 4.1.5 at:

(a) amortised cost;
(b) fair value through other comprehensive income; or
(c) fair value through profit or loss.

5.5.1 An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).

5.5.17 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 outcomes;
(b) the time value of money; and
(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

2.2 Expected features of the mentioned policy would tackle, but not limited to, the following:

a. the business model at a level of a portfolio;
b. classification or designation of financial instruments;
c. their initial and subsequent measurements;
d. application of Expected Credit Losses (ECL) and credit loss allowances, generally, in three stages; and
e. any relevant tainting provision or de recognition.

2.3 Paragraphs 17 and 18 of PAS 1 state that:

17. In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

(a) to select and apply accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

2.4 SHFC, as a government corporation classified as a Government Business Entity (GBE), is required to apply the PFRS as the applicable financial reporting framework in the preparation of its general-purpose financial statements, pursuant to Section 3.1 of COA Circular No. 2015-003 dated April 16, 2015.

2.5 Also, COA Resolution No. 2019 – 006 dated March 27, 2019 was issued for all Government Corporations classified as GBEs that have not taken into consideration the early application of the provisions of PFRS 9, to mandatorily apply the provisions of the PFRS effective January 1, 2019.

2.6 Review of the existing policy/guidelines of SHFC, however, disclosed that the Corporation has not yet applied/implemented the provisions of PFRS 9. The table below shows the requirements of PAS 39 and PFRS 9 vis-à-vis the present practice of SHFC in the classification, measurement and impairment of its financial instruments.

Particulars	PAS 39	PFRS 9	SHFC Present Practice
1. Classification Categories	• Financial Assets at Fair Value through Profit or Loss (FVPL) • Available for Sale Securities (AFS) • Held to Maturity (HTM) Loans and Receivables	• Financial Assets at FVPL • Financial Assets at Other Comprehensive Income • Financial Assets at Amortized Cost (AC)	• HTM • Loans and Receivables
2. Basis of Classification	Classification is anchored on specific definitions for each classification category	Classification is based on business model and the contractual cash flow characteristics	The classification depends on the purpose for which assets are bought and held
3. Measurement	Par 43. When a financial asset or financial liability is recognized initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are directly attributable to the acquisition or issue of the financial	5.1.1. Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction	Financial assets are recognized in the Statements of Financial Position when, and only when, the agency becomes a party to the contractual provisions of the instrument. At initial recognition, the agency measures its financial assets at fair value plus or minus, in the case of financial assets not at

Particulars	PAS 39	PFRS 9	SHFC Present Practice
	asset or financial liability. After initial recognition, measurement of financial instruments depends on classification categories.	costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. 5.1.3. Despite the requirement in Paragraph 5.1.1, at initial recognition, an entity shall measure trade receivables at their transaction price (as defined in IFRS 15) if the trade receivables do not contain a significant financing component in accordance with IFRS 15 (or when the entity applies the practical expedient in accordance with Paragraph 63 of IFRS 15). After initial recognition, measurement of financial instruments depends on classification categories.	fair value through statement of comprehensive income, transaction costs that are directly attributable to the acquisition or issue of the financial assets. Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less impairment in value, if any. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in the statement of income (now referred to as Statement of Comprehensive Income). Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of interest income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.
4. Tainting provision	Entity is required to reclassify HTM securities to AFS if it sells a substantial portion before maturity. The entity will have to wait for two years before it reverts the reclassification.	Reclassification is permitted between FVPL and AC if entity's business model objective changes, no tainting rule.	No reclassification between HTM and AFS
5. Hedge accounting	Embedded derivatives are separated from the hybrid contract and are measured at FVPL.	No bifurcation of asset unless hybrid contract contains a host and embedded derivative that do not have the same	No hedge accounting

Particulars	PAS 39	PFRS 9	SHFC Present Practice
	Uses 80%-125% threshold for hedging effectiveness	economic characteristics. Does not recognize threshold for hedging effectiveness	
6. Impairment	Based on Incurred Loss Model wherein impairment is recognized at later stage when credit loss event has occurred.	Based on ECL and requires recognition of credit loss allowances on initial recognition of financial assets In general, entities must recognize ECL in three stages: • Stage 1 (requires 12-month ECL) — Upon initial recognition and as long as the credit risk of a financial asset has not increased significantly since initial recognition (i.e., good exposures), the entity is required to provide for credit losses equivalent to 12-month ECL. Interest income is recognized by applying the effective interest rate (EIR) on the gross carrying amount of the financial asset. • Stage 2 (requires lifetime ECL) — If the credit risk has increased significantly since initial recognition, an allowance will be provided equivalent to lifetime ECL. Interest income recognition is the same as in Stage 1. • Stage 3 (requires lifetime ECL) — If the financial asset shows objective evidence of	Allowance for impairment is maintained at a level considered adequate for potentially uncollectible receivables. The level of allowance is based on historical collection, current economic trends, and changes in the customer payment terms, age status of receivables and other factors that may affect collectability. The allowance is established by charges to income in the form of provision of doubtful accounts (now referred to as impairment).

Particulars	PAS 39	PFRS 9	SHFC Present Practice
		impairment following similar criteria as in IAS 39, an allowance will be provided equal to lifetime ECL. Additionally, interest revenue would be calculated applying the Effective Interest Rate (EIR) to the amortized cost net of loss allowance. When credit risk has increased significantly from Stage 1 to Stages 2 and 3 above, the amount of impairment recognized (i.e., lifetime ECL) will correspondingly increase.	

2.7 As at December 31, 2019, the Corporation reported the following financial assets:

Financial Assets	Amount	% over Total Assets	Remarks
Investments in treasury bills	1,603,895,203	5.69	A
Receivables, current (net of mandatory accounts)	102,210,988	0.36	A
Other current assets (composed mainly of advances to contractors)	518,259,530	1.84	A
Receivables, non-current	18,335,157,055	65.02	B
Other non-current assets (refers to assets held in trust on AKPF)	552,560,105	1.96	A
	21,112,082,881	**74.87**	

A - Under 5.5.16 of PFRS 9, an entity may select its accounting policy for trade receivables, lease receivables and contract assets independent from each other.

B - Under 5.5.1 of PFRS 9, an entity shall recognize a loss allowance for expected credit losses on a financial asset that is measured in accordance with Paragraph 4.2.1 (amortized cost) xxx.

2.8 Review of the Statement of Financial Position for CY 2019 showed that the financial assets amounting to P21.112 billion represents 74.87 per cent of the total assets of SHFC amounting to P28.198 billion. Non-current receivables amounting to P18.335 billion, or 65.02 per cent of the total assets, should have been provided with a loss allowance for ECL as required in Paragraph 5.5.1 of PFRS 9. Financial liabilities of SHFC, on the other hand, are classified and measured at amortized cost, under PAS 39 with no impact on PFRS 9 since most of the liability accounts are trade and loans payable, borrowings.

2.9 SHFC assesses and computes impairment through Loan Loss Provisioning for MCR approved under Board Resolution No. 329 dated May 24, 2013. Salient features of the said Board Resolution are as follows:

Loan Classification	Loss Loan Rate
Current Accounts	.25
Current Accounts – Restructured	.25
Past Due	
>3-12 months	.50
>1-3years	.75
Over 3 years	1.00
Items in Litigation	5.00

2.10 For CY 2019, the computed impairment loss for MCR applying the aforementioned rates and the allowance for impairment loss as at December 31, 2019 are as follows:

Impairment Loss:

Monthly Provision for CY 2019	Amount
January	496,648
February	133,271
March	603,876
April to December	1,333,986
	2,567,781

Allowance for Impairment Loss:

Loan Classification	Outstanding Principal Balance	Loan Loss Rate	Loan Loss Provision
Current Accounts	3,204,970,400	0.25	8,012,426
Past Due Accounts			
>3-12 Months	1,368,981,600	0.50	6,844,908
>1-3 Years	1,311,265,333	0.75	9,834,490
Over 3 Years	52,263,319,600	1.00	52,633,196
Items in Litigation	93,903,280	5.00	4,695,164
			82,020,184

2.11 In addition, ECL has to be recognized, generally in three stages depending on the magnitude and extent of credit risks and should no longer be based on occurrence of loss which has been the practice of SHFC.

2.12 It is also worthy to note that Management consider the amendments to PFRS 9 issued in October 2017, on Prepayment Features with Negative Compensation. The amendments provide that particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of such contracts are eligible to be measured at amortised cost or at fair value through other comprehensive income.

2.13 Moreover, disclosure requirements provided under PFRS 7 relating to recognized financial instruments within the scope of PFRS 9 were not presented in the financial statements.

2.14 The absence of an accounting policy on financial instruments that harmonizes with the requirements of PFRS 9 with effectivity on January 1, 2019, pursuant to COA Resolution No. 2019-006, affects the fair presentation of the accounts in the financial statements.

2.15 **We recommended that Management formulate a policy on financial instruments that harmonizes with the provisions of PFRS 9 for the fair presentation of the financial statements as provided under PAS 1.**

2.16 Management commented that they are in the process of hiring a consultant who will guide them in the formulation of policies and/or guidelines for the proper implementation of PFRS 9, and on the assessment and recording of impairment losses.

2.17 Also, Management will assess if the foregoing amendments under PFRS 9, specifically the provisions on "Prepayments Features with Negative Compensation" will apply relative to the current transactions that SHFC undertakes.

3. The variance of P1.077 billion between the balances of the General Ledger (GL) of the Mortgage Contracts Receivable - Community Mortgage Program (MCR-CMP) and Subsidiary Ledger (SL) of the Community Associations (CAs) account as at December 31, 2019, casts doubt on the accuracy, reliability and validity of the account, contrary to Section 111 of Presidential Decree (PD) 1445 and Paragraph 15 of PAS 1, affecting the fair presentation of the account balance in the financial statements.

3.1 Section 111 of PD No. 1445 on the Keeping of Accounts states that:

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

3.2 Paragraph 15 of PAS 1: Presentation of Financial Statements as stated in Paragraph 1.1 in Part II of this report is among the criteria for this observation.

3.3 CMP is a financing scheme that assists and enables informal settlers, slum dwellers or residents of blighted areas, in purchasing their housing through their duly registered CAs, the land they occupy or the land where they would be relocated. After having turned-over and individualized/unitized the titles by the CA, these would already be in the name of the MBs. The account is considered past due when the MB fails to pay three consecutive monthly amortizations of his housing loan, which is recorded under MCR - Past Due account.

3.4 The SL balances of the MBs as at December 31, 2019 showed a total of P11.613 billion, aged as follows:

Age	Number of Accounts	Amount	% over Total
Fully paid accounts	75,098	0	0
0 month to 3 months	65,979	3,575,812,652	30.79
More than 3 months to 1 year	23,008	1,368,981,431	11.79
More than 1 year to 2 years	14,575	735,124,432	6.33
More than 2 years to 3 years	11,393	576,140,953	4.96
More than 3 years to 4 years	10,443	545,391,905	4.70
More than 4 years to 5 years	9,481	481,911,238	4.15
More than 5 years and above	106,141	4,329,919,714	37.28
Total – SL based on MBs	316,118	11,613,282,325	100
Total – SL based on CAs		11,768,037,608	
Variance		**(154,755,283)**	**1.33**

3.5 The SL of the CAs differed from the total of MBs' individual ledgers by P154.755 million which is higher compared to the CY 2018 variance amounting to only P18,037. Verification of the two records and inquiry with Management disclosed that the variance was due to timing difference because the individual ledgers of the MBs were not adjusted/updated concurrently with the SLs of the CAs.

3.6 Conversely, the SL balances of the CAs totaling P11.768 billion, consisting of 2,801 associations, represent only 91.62 per cent of the GL balance (MCR-CMP) of P12.845 billion as at December 31, 2019, reflecting a variance of P1.077 billion, or an unaccounted difference of 8.38 percent, as detailed below:

Account	Amount			% Variance over GL
	SL – CAs	GL	Variance	
MCR - Current	9,068,125,795	9,138,973,108	(70,847,313)	
MCR - Past Due	1,735,133,053	2,812,146,110	(1,077,013,057)	
MCR - Items in Litigation	50,925,357	50,925,357	0	
MCR - Restructured Interest-Bearing Principal	710,150,385	644,079,789	66,070,596	
MCR - Non-Interest Bearing Principal	203,703,018	198,439,144	5,263,874	
	11,768,037,608	**12,844,563,508**	**(1,076,525,900)**	**8.38**

3.7 Validation of the status of prior year's recommendations revealed that Management is still working on the preliminary activities, such as batch processing of MB ledgers and generation of balances in the Operation Support and Information System (OSIS).

3.8 Thus, the existence of variance between the SL and GL balances casts doubt on the accuracy and validity of the receivables comprising the MCR – CMP account, contrary to Section 111 of PD No. 1445 and Paragraph 15 of PAS 1 which requires faithful representation of transactions reported in the accounts in the financial statements.

3.9 **We reiterated our prior years' recommendations that Management:**

a. **Reconcile the variances between SL of CA and SL of MBs, as well as SL and GL balances of P1.077 billion by at least:**

   i. **65 percent of the variance by CY 2020**
   ii. **35 percent of the variance by CY 2021; and**

b. **Require the Information and Communication Technology Department (ICTD) to assist the Finance and Comptrollership Department (FCD) in enhancing and developing an accurate and updated database.**

3.10 Management commented that the reconciliation of the GL and SL balances of the subject account is dependent on the completion of the posting and updating records of UC account especially those related to prior periods which affect the actual distribution of payments in the succeeding periods.

3.11 Also, Management mentioned that ICTD already developed the system for maintaining an effective database as an action plan to achieve the proposed percentage of reconciliation of variances until fully reconciled in CY 2021. Some regions, however, are still in the process of linking to the centralized system.

4. **The present value of expected payments to cover future retirement benefits of SHFC's employees was not measured and recognized regularly in the books as benefit cost and benefit obligation, contrary to PAS 19 on Employee Benefits and PAS 1 on Presentation of Financial Statements, resulting in the understatement of both the expense and liability accounts. This defeats the purpose of spreading out the expense over years in service so that the benefit expense recognized in the financial statements does not differ materially with the benefit expense at the reporting/availment period and which likewise has a significant impact on cash flows.**

4.1 PAS 19 on employee benefits provides the recognition, measurement and disclosure of post-employment benefits, specifically the defined benefits plan under the following paragraphs:

> *58. An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognized in the*

financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

120. An entity shall recognize the components of defined benefit cost, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset, as follows:

(a) service cost in profit or loss;
(b) net interest on the net defined benefit liability (asset) in profit or loss; and
(c) remeasurements of the net defined benefit liability (asset) in other comprehensive income.

122. Remeasurements of the net defined benefit liability (asset) recognized in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognized in other comprehensive income within equity.

135. An entity shall disclose the information that:

(a) explains the characteristics of its defined benefit plans and risks associated with them;
(b) identifies and explains the amounts in its financial statements arising from its defined benefits plan; and
(c) describes how its defined benefits plan may affect the amount, timing and uncertainty of the entity's future cash flows.

4.2 The same accounting standard defines retirement benefit obligation as the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

4.3 Records show that SHFC employees are not registered members of the Government Service Insurance System (GSIS) but of the Social Security System (SSS) with different type of social insurance and retirement benefits. SHFC is a non-chartered Government Owned and/or Controlled Corporation (GOCC) that was organized and created under Batas Pambansa Bilang 68, or The Corporation Code of the Philippines, wherein its primary franchise is disclosed under its Articles of Incorporation.

4.4 The SHFC has a total of 230 regular and permanent employees with plantilla positions as at December 31, 2019, of which four have retired in 2019, thus entitling them to retirement gratuity. Due to the absence of established retirement plan or agreement, the Corporation granted to its eligible employees the minimum retirement benefits set forth in RA No. 7641, otherwise known as The Retirement Pay Law, to wit:

Section 1. xxx In the absence of a retirement plan or agreement providing for retirement benefits of employees in the establishment, an employee upon reaching the age of sixty (60) years or more, but *not beyond sixty-five (65) years which is hereby declared the compulsory retirement age, who has served at least five (5) years in the said establishment, may retire and shall be entitled to retirement pay equivalent to at least one-half (1/2) month salary for every year of service, a fraction of at least (6) months being considered as one whole year.*

Unless the parties provide for broader inclusions, the term one-half (1/2) month salary shall mean fifteen (15) days plus one-twelfth (1/12) of the 13th moth pay and the cash equivalent of not more than five (5) days of service incentive leaves. xxx

4.5 Retirement benefits under RA No. 7641 granted by SHFC to all its eligible employees fall under the category of Defined Benefit Plans, pursuant to PAS 19 on Employee Benefits. The plans that define the benefits that the employees will receive at the time of retirement computed based on a formula are called defined benefit plans. Under these plans, it is necessary for the employer to determine the amount of contribution to meet the future benefit requirements.

4.6 Consequently, there is an obligation on the part of SHFC to estimate the periodic accrual for the benefits of its employees to ensure availability of resources come retirement period.

4.7 Verification, however, revealed that SHFC was not able to recognize a retirement benefit obligation under the Non-Current Liabilities portion in its Statement of Financial Position (SFP). Moreover, the measurement of defined benefit costs which include service cost attributable to the current and past periods, interest on defined benefit liability and actuarial gains and losses, if necessary, were not recognized in the Statement of Comprehensive Income (SCI). Both the recognition of liability and expense are requirements provided in the Paragraphs 58, 120 and 122 of PAS 19.

4.8 Moreover, paragraphs 27 and 28 of the same standard provide the following, respectively:

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

When the accrual basis of accounting is used, an entity recognizes items as assets, liabilities, equity, income and expenses (the element of financial statements) when they satisfy the definition and recognition criteria for those elements in the Conceptual Framework.

4.9 Records show that the GL of the Retirement Gratuity account has a balance of P3.456 million as at December 31, 2019 which is the aggregate retirement benefit given to the retired employees.

4.10 Review disclosed that the recorded Retirement Gratuity for CY 2019 pertains to the actual pay-out of said benefits totaling P2.651 million with corresponding credit to Cash-in-Bank – Local Currency account while the remaining P805,201 refers to the accrual of the benefit.

4.11 Verification further revealed that SHFC's retirement gratuity (expense) is recorded only upon receipt of the approved Request for Payment (RFP) and Budget Utilization Request (BUR) endorsed by the Human Resource Development Division (HRDD) for payment of computed retirement benefits. Moreover, said expense is accrued for benefits of retiring personnel whose RFP and BUR are yet to be received by the Accounting Department.

4.12 Likewise, validation of reports disclosed that four of the 12 personnel were separated from the service in CY 2019 by reason of retirement.

4.13 Thus, the non-recognition of the present value of expected payments to cover future retirement benefits of SHFC's employees resulted in the understatement of liabilities as well as defined benefit cost (retirement expense) to be recognized in its SFP and SCI, respectively. Moreover, the outright recognition of retirement gratuity and lump sum payout on the year of availment will have an adverse impact on cash flows.

4.14 **We recommended that Management:**

a. **Recognize in the books the present value of expected payments to cover future retirement benefits as expense and liability, pursuant to PAS 19;**

b. **Disclose in the Notes to Financial Statements pertinent and necessary information required under Paragraph 135 of PAS 19 on Employee benefits; and**

c. **Seek assistance from a qualified actuary services in the measurement of all material post-employment benefit obligations to carry out a detailed valuation of the obligation before the end of the reporting period.**

4.15 Management commented that they will discuss the matter with their consultant including the assistance of an actuary service to facilitate the proper measurement and accounting of future retirement benefits, and the preparation of necessary disclosure in the Notes to Financial Statements pursuant to Paragraph 135 of PAS 19.

5. **The money value of the accumulated unused leave credits amounting to P12.307 million paid to SHFC employees was not recognized regularly in the books as expense and accrued liabilities at the end of the reporting period when leave credits are earned, contrary to PAS 19 on Employee Benefits, resulting in the overstatement of expenses in current year and the understatement of liabilities in prior years. This defeats the purpose of recognizing the expected cost of employee benefits when services are rendered.**

5.1 PAS 19 on employee benefits provides the recognition and measurement of the short-term employee benefits, specifically the accumulating paid absences under the following paragraphs:

13. An entity shall recognize the expected costs of short-term employee benefits in the form of paid absence under paragraph 11 as follows:

(a) in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences;

(c) in the case of non-accumulating paid absences, when the absences occur.

16. An entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as result of the unused entitlement that has accumulated at the end of the reporting period.

5.2 Under the Collective Bargaining Agreement (CBA) between SHFC and Social Housing Employees Association, Inc. (SOHEAI), it was agreed that SHFC will grant the following leave privileges to its employees:

Type of Leave Credits	Leave Credits Granted	Money Value
a. Vacation Leave (VL)	fifteen (15) days leave with pay per year, plus one (1) day for every three (3) years of service upon regularization.	All unused leave credits shall be paid their cash equivalent at 100 per cent of basic rate at the end of the year of availment.
b. Sick Leave (SL)	fifteen (15) days leave with pay per year, plus one (1) day for every three (3) years of service upon regularization.	All unused leave credits shall be paid their cash equivalent at 100 per cent of basic rate at the end of the year of availment.
c. Emergency Leave	five (5) days leave with pay per year	Non-accumulating and Non-vesting
d. Extra Leave	One (1) travel day-off for every five (5) days official travel and two (2) extra days off for fifteen (15) days of official travel to be availed immediately after travel	Non-accumulating and Non-vesting
e. Study Leave	Four (4) months with pay to be used in instances such as reviewing for bar examinations and any licensure examinations, etc. which can be availed once.	Non-accumulating and Non-vesting

Type of Leave Credits	Leave Credits Granted	Money Value
f. Solo Parent Leave (SPL)	Seven (7) days leave with pay per year, plus one (1) day for every three (3) years of service upon regularization.	All unused leave credits shall be paid their cash equivalent at 100 per cent of basic rate at the end of the year of availment.

5.3 Accordingly, employees are entitled to the monetization of some of the leave credits earned such as sick, vacation and solo parent leave, equivalent to 100 per cent of the basic salary rate. These can be accumulated and carried forward to the succeeding years, in case the employee opts not to avail of the money value of the unused earned leave during the year.

5.4 These benefits are categorically considered as accumulating and vesting compensated absences as defined under PAS 19 on Employee Benefits. The same accounting standard states that an obligation arises as the employees render services that increases their entitlement to future paid absences, and prescribes the recognition of accrued liabilities at the end of the reporting period.

5.5 Review and verification of the General Ledger schedule showed that SHFC does not accrue the money value corresponding to the earned/accumulated unused leave credits of its personnel, contrary to PAS 19 on Employee Benefits. The Terminal Leave Benefits account is debited and Cash in Bank – Local Currency account is credited upon availment of monetization or separation from service by the employee.

5.6 Consequently, monetized leave credits totaling P12.307 million were recorded as an outright expense in the current period, instead of being recognized regularly at the end of every reporting period, contrary to Paragraphs 13 and 16 of PAS 19 and the matching principle of accounting.

5.7 The non-recognition on a regular basis of expense and accrued liabilities at the end of the reporting period when leave credits are earned for the monetary value of the accumulated unused leave credits, resulted in the overstatement of expenses and understatement of retained earnings for CY 2019 amounting to P12.307 million, and the understatement of liabilities as at December 31, 2019 in the same amount. This defeats the purpose of recognizing the expected cost of employee benefits when services are rendered.

5.8 **We recommended and Management agreed to regularly recognize in the books the money value of accumulated unused leave credits at the end of the reporting period when the employees render service, in accordance with PAS 19.**

5.9 Management commented that proper coordination among responsible departments on pertinent data and reports will be observed to ensure that the expected money value of accumulated unused leave credits are recognized in the books regularly when leave credit is earned.

6. **The long outstanding Receivables - Due from Officers and Employees account amounting to P2.294 million aged from one to more than four years as at December 31, 2019 and the negative balance amounting to P144,206 with no receivable set-up in the books due to absence of supporting documents are not in accordance with Section 6.1 of COA Circular No. 2016-005 and Sections 111 and 114 of PD No. 1445, casting doubt on the validity of the account that results in the inability of SHFC to collect the funds which could have been used for its operations.**

6.1 Section 6.1 of COA Circular No. 2016-005 states that:

All government entities shall conduct regular monitoring and analysis of receivable account to ensure that these are collected when these become due and demandable and that cash advances and fund transfers are liquidated within the prescribed period depending upon their nature and purpose.

6.2 Section 111 of PD No. 1445 on the Keeping of Accounts as stated in Paragraph 3.1 in Part II of this report is also a criteria for this observation.

6.3 Section 114 of PD No. 1445 states that:

(1) *The government accounting system shall be on a double entry basis with a general ledger in which all financial transactions are recorded;*

(2) *Subsidiary records shall be kept where necessary.*

6.4 Review disclosed that Receivables - Due from Officers and Employees account amounting to P2.151 million as at December 31, 2019 consist of long outstanding balance amounting to P2.294 million which remained uncollected for periods ranging from one to more than four years due to lack of proper monitoring by the Accounting Department. This includes uncollected personal telephone bills incurred by officers and employees at Head Office and regional satellites, tax receivables from employees for non-deduction of tax on benefits received, under deposit of collections from various Regional Offices, unpaid SSS, Pag-IBIG and PhilHealth contributions of employees. On the other hand, the existence of negative balances amounting to P144,206 was due to the absence of valid supporting documents to set-up the receivable and the lack of monitoring by the Accounting Department. Details follow:

Particulars	Date	Age	Amount	Remarks
Tax receivable	2015	more than 4 years	1,949,549	Tax deficiencies on benefits received in 2015
Telephone bills	various	more than 4 years	307,341	Personal telephone bills of employees
Under remittance of SSS, Pag-IBIG and PhilHealth Contributions	various	more than 2 years	26,392	No deduction of mandatory employees' contribution to government agencies.
Under Deposit-Regional Offices	various	2018 and below	8,716	Under deposit of various regional offices
(Forward)				

Particulars	Date	Age	Amount	Remarks
Error – Tax Computation		2016	1,548	No Subsidiary Ledger (SL) and no available documents
Overpayment of maternity benefit			598	No available documents
			2,294,144	
Adjustment - prior years		more than 4 years	(71,364)	No SL and no available documents.
In-house and regional cash receipts	various	more than 4 years	(70,263)	No set-up of receivable on collected telephone bills from Regions. No available documents
SSS payments			(2,579)	No set-up. No available documents
			(144,206)	
		Subtotal	**2,149,938**	
Training Fee	Nov. 7-9, 2019	Current	**2,000**	Excess seminar fee to be paid by participants
		Grand Total	**2,151,938**	

6.5 Verification revealed that the account with no SL cannot be collected due to the absence of records and documents. Inquiry disclosed that the Accounting Department will deduct the said receivables from the salary of employees who are still connected with SHFC. On the other hand, demand letter will be sent to those already separated from the service to inform them of their obligation to SHFC.

6.6 The Receivable – Due from Officers and Employees amounting to P2.294 million which have been outstanding for periods ranging from one to more than four years and the negative balance amounting to P144,206 with no set-up of receivable in the books due to absence of supporting documents are not in accordance with Section 6.1 of COA Circular No. 2016-005 and Sections 111 and 114 of PD No. 1445, casting doubt on the validity of the account that results to inability of SHFC to collect the funds which could have been used for its operations.

6.7 **We recommended that Management:**

a. **Deduct the amount due from the salary of employees who are still in the active service;**

b. **Check whether the money accountability of former personnel is cleared, and send demand letters to last known address on file, if necessary; and**

c. **Exert effort in locating the records and pertinent supporting documents in order to record and collect the long outstanding receivables and reconcile the abnormal balances in the account.**

6.8 Management commented that salary deductions related to tax on Gift Checks were effected starting March 2019 concurrent with the set-up of the receivable for the year 2019, pursuant to the demand made by the Bureau of Internal Revenue (BIR) on February 11, 2019. Moreover, tax receivables related to FY 2017 were already collected from April to September 2018, except for the remaining balance. On the other hand, a memorandum was sent to the Facilities and Administrative Support Division for the settlement of unpaid telephone bills of several employees.

6.9 Also, Management mentioned that its Legal Department will send demand letters to former employees to facilitate collection and will exert best effort and prudence in locating the necessary documents to record and collect the long outstanding receivables and reconcile the abnormal balances.

B. OTHERS

7. The Gumamela Neighborhood Housing Cooperative (GNHC) Project amounting to P551.020 million under the High Density Housing Program (HDHP) was not completed within the scheduled date of completion despite the approved extension period until June 30, 2018, contrary to the provisions of the Building Construction and Site Development Agreement, thus depriving the intended 1,406 Informal Settler Family (ISF)-beneficiaries living in waterways and danger zones of decent and affordable housing and defeating the objectives of the Program including the non-recovery of funds invested in housing.

7.1 Executive Order No. 272 dated January 20, 2004, mandated the SHFC as the lead government agency to undertake social housing programs that will cater to the formal and informal sectors and take charge of the development and administration of social housing program schemes, particularly the CMP and the Abot-Kaya Pabahay Fund (AKPF) program (amortization support program and development financing program).

7.2 In furtherance of its mandate and primary purpose, SHFC promulgates guidelines to provide the implementation framework within which SHFC can participate in the ISF Housing Project and enable it to extend financing assistance to organized communities for the construction of HDH projects. The beneficiaries of the HDH are community associations of informal settlers who are living in danger areas and along the waterways in highly urbanized cities.

7.3 The Building Construction and Site Development (BCSD) Agreement executed by and between the Contractor, known as the First Party, and Community Associations A to H, known as the Second Party, states that:

> *WHEREAS, SECOND PARTY desires to engage the services of the FIRST PARTY for the construction of buildings and site development for its member-beneficiaries;*
>
> *WHEREAS, the FIRST PARTY warrants that it is licensed in the Republic of the Philippines to develop the property, and represents itself to be skilled, competent, capable, and qualified to undertake and complete the works herein provided;*

7.4 The following Articles of the same Agreement provide that:

> ***Article III*** *- The scope of work to be performed under this Agreement shall be <u>fully completed within one (1) year from the release of the mobilization fund</u> from the government financing institution, the Social Housing Finance Corporation (SHFC).*
>
> ***Article XI*** *- It is understood that time is an essential feature of the Contract and upon failure of the FIRST PARTY to complete Scope of Work of the Project on the scheduled completion date, or any extension thereof mutually agreed upon in writing prior to the targeted completion date, the FIRST PARTY shall pay the SECOND PARTY liquidated damages equivalent to one-tenth of one percent (1/10 of 1%) of the value of unfinished scope of work per day of delay until completion. SHFC is authorized to deduct from any sum due or will become due to the FIRST PARTY all sums accruing as liquidated damages in accordance with this paragraph. The payment of deduction of such damages shall not relieve the FIRST PARTY from its obligation and liabilities under this Contract.*
>
> ***Article XIII*** *- In the event that the FIRST PARTY shall in any manner neglect or fail to perform any agreement herein (including but not limited to delay), the SECOND PARTY shall give written notice to the FIRST PARTY to proceed with such work and to perform such agreement, and if the FIRST PARTY SHALL FAIL TO DO SO ACCORDINGLY within seven (7) days from receipt thereof, the SECOND PARTY and SHFC shall have the option to proceed against the bond and enter the premises and to employ any other contractor to complete the work at the expense of the FIRST PARTY.*

7.5 Corporate Circular HDH No. 14-002 dated March 31, 2014 on the Implementing Rules and Regulations (IRRs) for Building Construction and Site Development Loans for HDHP states that:

Section 9. Loan Release for Building Construction and Site Development

> *Upon review/assessment of the credentials of the Contractor/ Developer and the required documents and permits as contained in Annex "B" hereof, Management shall endorse the project for Board approval. Upon approval, a Notice to Proceed shall be issued and the community association shall request for the mobilization fund equivalent to fifteen percent (15%) of the site development or building construction loan.*
>
> *Release of the loan shall be made in progress billing and in accordance with the approved work schedule. Releases shall be made up to a maximum of four (4) tranches (exclusive of the 15%*

mobilization fund.) For every payment of loan release, submission of the following requirements shall be made:

a. Statement of Work Accomplishments (SWA) indicating the percentage of work progress signed by the developer/ contractor, the Community Association, Construction Project Management and SHFC Inspection Team;
b. Pictures of the projects (showing actual progress);
c. Billing requirements; and
d. Certificate of Completion and Acceptance (for completed building)

Prior to the release of each drawdown, SHFC shall determine if the collateral value of the land, including its improvement is sufficient to cover the loans based on the reports submitted by the HDH Team.

7.6 Section 31 - CMP Modalities on the release of Funds for Site Development and House/Building Construction, however, provides that:

The remaining eighty-five percent (85%) of the funds shall be released up to twelve (12) tranches based on the work schedules and loan drawdowns submitted by the CA/Builder and duly approved by SHFC. The last tranche shall be released upon submission of all documents listed in the Checklist of Requirements for Loan Releases.

7.7 The GNHC, is a near-city relocation intended for 1,406 ISFs living along the Tullahan River, San Juan River, Lagarian Creek, NPC transmission line, Tonsuya River and dumpsite.

7.8 The GNHC obtained a loan from SHFC for the acquisition of lot for their relocation, as well as site development and house construction. The tenurial agreement entered into by the Community Association (CA) and SHFC is through usufruct.

7.9 Board Resolution No. 473, s. 2015, approved the acquisition of a lot with an area of 120,592 square meters (sq. m.) amounting to P96.474 million, or at P800.42 per sq. m.. Board Resolution No. 517, s. 2016, likewise approved the site development and building construction amounting to P443.837 million for the GNHC project located at Brgy. Kaypian, San Jose Del Monte, Bulacan, with the following cost details:

Cost		Amount	Share per ISF
Phase I			
Lot		96,473,600	68,616
Direct Cost.			
Subsidy - CSO Service fee	2,100,000		
Taxes	5,786,415	7,897,416	
Administrative Cost (2,000/ISF)		2,812,000	
		107,183,016	68,616

(Forward)

Cost	Amount	Share per ISF
Phase II		
Site Development	146,162,287	103,957
Building Cost	275,637,713	196,044
Indirect Cost	22,037,126	
	443,837,126	300,001
Total	**551,020,142**	368,617

7.10 For Phase I, the amount of P77.179 million or 80 per cent of the total lot acquisition cost of P96.474 million was paid to the lot owners on June 7, 2016. The lot was covered by the following Transfer Certificates of Title (TCTs).

TCT No.	Lot Owner	Land Area (sq. m.)	Total Cost
259965 (M)	A	59,949	76,740,800
T-241761		35,977	
040-2012003944	B	5,000	4,550,400
040-2012003945		688	
T-60.487 (M)	C	18,290	14,632,000
040-2015036998	D	688	550,400
		120,592	**96,473,600**

7.11 Review of the BCSD Agreement disclosed that the site development and construction of 1,046 duplex with loft type units shall be fully completed within one year from the release of the mobilization fund.

7.12 Verification of disbursement voucher revealed that the mobilization fee amounting to P63.270 million was received by the contractor through Check No. 62303 dated September 15, 2016. The project, however, was not completed within the one-year period stipulated in the Agreement, or on September 15, 2017. Thus, the contractor requested an extension of until June 30, 2018 of the construction period and was approved under Board Resolution No. 613 s. 2017, citing the reasons enumerated below:

a. Payment scheme;
b. Revision of progress billing payment scheme;
c. Conflict with former land owner for its farming activities;
d. Material supply shortage due to high demand for construction materials;
e. Ready mix concrete high demand;
f. High inflation work;
g. Evident competition of construction projects;
h. Material and labor escalation;
i. Weather constraints; and
j. Encroachment of neighborhood areas.

7.13 Further verification of records showed that the project remained unfinished and has incurred delay of one year and six months from the period of extension until the year-end as shown below:

Date	Particulars
September 15, 2016	Receipt by the Contractor of the mobilization fee
September 15, 2017	Completion date per Building Construction and Site Development Agreement
June 30, 2018	Completion date after period of extension requested
1 year and 6 months	Length of delay from extension period until year-end (June 30, 2018 to December 31, 2019)

7.14 Review of the project status report submitted by the HDH Division on September 2019 also disclosed that the total amount of cost incurred as at even date amounted to P337.482 million, representing 80.01 per cent of the project cost (site development and building structures) as detailed below:

Drawdown	**Check Number**	**Date**	**Amount**		**% of Completion**
			Net of Mobilization and Retention Fees	**Gross Running**	
1st	74317	08/25/2017	58,680,540	78,240,720	18.55
2nd	74338	10/05/2017	26,433,482	113,485,363	26.91
3rd	74358	11/24/2017	33,996,798	158,814,427	37.65
4th	74375	12/22/2017	24,627,829	202,597,234	48.03
5th	74395	02/26/2018	34,752,719	248,934,192	59.02
6th	74417	05/10/2018	29,189,832	287,853,968	68.24
7th	74434	07/31/2018	16,829,982	310,293,944	73.56
8th (partial)	74534	09/05/2019	23,109,447	337,481,554	80.01
			247,620,629		

7.15 Succeeding drawdowns were discontinued due to issues and concerns on the project, including encroachment and soil erosion, among others, on some parts of the lot area.

7.16 We noted that despite the slippage of 14 months (June 30, 2018 to Aug 30, 2019), the 8th partial payment amounting to P23.109 million was released to the Contractor under Check No. 74534 dated September 5, 2019. Under Article XI of the Agreement, time is an essential feature and upon failure of the Contractor to complete the Scope of Work of the Project on the scheduled completion date, including extension, liquidated damages shall be paid by the Contractor to the CA for the delay incurred. Moreover, SHFC is authorized to deduct from any sum due or will become due to the Contractor, all sums accruing as liquidated damages. Likewise, under Article XIII of the same Agreement, SHFC shall have the option to proceed against the bond, enter the premises and employ any other contractor to complete the work at the expense of the Contractor.

7.17 Evaluation report dated September 30, 2018 prepared by the Construction Project Manager (CPM) represented by ESCA Incorporated disclosed that there are unfinished houses on some cluster areas. Further, the CPM recommended that the contractor provide additional manpower for the immediate construction of the 400 incomplete/unfinished houses. No Updated Status Report was furnished the Audit Team, despite request in a Memorandum dated September 5, 2019 addressed to the Department of Engineering of SHFC.

7.18 Ocular inspection on the project conducted by the Audit Team on September 18, 2019 revealed the following: (see Annex A for images)

a. the project is not yet completed;
b. there are no construction activities ongoing;
c. essential developments, such as road networks, rip rapping works have yet to be constructed and electrical system for some housing units have yet to be installed;
d. there are lot areas unfit for housing construction and road ways due to encroachment issue
e. perimeter fences are lacking, posing risk to the ISFs;
f. some areas are bounded by a creek which may cause soil erosion if water from the river reaches the gutter;
g. the road from the creek area is already cracked, maybe due to the loss of top layer soil caused by the increasing level of water from the river;
h. reinforcing bars are already rusty and deteriorating and roofs are damaged; and
i. some unfinished houses are already covered with vines and grasses due to the growth of vegetation in the area.

7.19 Inquiry with ESCA, Incorporated during the inspection disclosed that 140 housing units are not yet completed of which 74 units were affected by encroachment and 66 units were due to susceptibility to soil erosion.

7.20 Although the housing project was chosen through the People's Plan, there should have been an assessment made by SHFC to determine if the property is fit for a housing community so as not to risk the safety and health of the beneficiaries.

7.21 The continuous delay in the completion of the project prolonged the relocation of the 1,406 ISFs living in waterways and danger areas, depriving them of decent and affordable housing, thus defeating the objectives of the HDHP. The delayed completion of the project also caused the non-recovery of funds invested in the housing project.

7.22 **We recommended that Management:**

a. Conduct a re-survey to determine the actual lot area intended for the housing project less any encroachment, if any;

b. Require the CA to compute for and demand the liquidated damages from the Contractor, pursuant to Article XI of the Building Construction and Site Development Agreement;

c. **Require the CA to implement the following remedies against the Contractor as provided in the Agreement:**

   - **Give written notice to the Contractor to proceed with the work and perform in accordance with the agreement; and**

   - **If the Contractor fails to do so within seven days from receipt thereof, the CA and SHFC shall have the option to proceed against the bond, enter the premises and employ other contractor to complete the work at the expense of the original Contractor.**

d. **Submit updated Accomplishment Report from the Contractor duly validated by the Department of Engineering of SHFC;**

e. **As part of due diligence for future projects, ensure that the performance of the contractor/developer is properly evaluated and that loan releases are made only on the basis of duly validated Statement of Work Accomplishment pursuant to Corporate Circular HDH No. 14-002 dated March 31, 2014; and**

f. **Conduct the necessary geo-hazard assessment and evaluation on the lot proposed to be used in the HDH project to determine if it is suitable for housing and safe from hazard before the approval of its acquisition.**

7.23 Management commented that they have taken proper actions to address the issue on the lot area of the two owners for the subject property:

- Lot Owner A - still in the process of determining the actual total encroachment area since there is still a variance between the findings of the SHFC Department of Engineering and that of the private Geodetic Engineer of the Landowner as to the actual encroachment area.

- Lot Owner C - encroachment has already been addressed and it was agreed upon that the value of the encroachment shall be deducted by SHFC from the remaining 20 per cent receivable from the landowner. The transfer of the title under the name of SHFC is currently being facilitated.

7.24 Also, Management mentioned that several actions have been taken by SHFC to move the project forward towards completion, however, there are pending technical and organizational matters that must be addressed by the Contractor and the HOA, respectively. For the technical matters, the Department of Engineering, SHFC is in constant communication with the Contractor regarding the accomplishments and revised timelines or construction schedule. With regards to the organizational matters, HDH Luzon unit is likewise in constant communication with the HOA and conducting validation activities to ensure that the membership thereof is intact.

7.25 Further, as a pre-emptive measure and due diligence, the SHFC Board of Directors through its Board Resolution No. 807 series of 2019, adopted a new construction scheme to resolve issues involving unfinished site development and building construction and to further protect the interest of the CAs through a by-phase based construction scheme. In this scheme, site development and building construction shall be done by phase or number/set of buildings shall be constructed first before the Contractor can proceed with another set of building until all are constructed to ensure that the contractor will finish a number of buildings before continuing with the remaining building.

7.26 As a rejoinder, we stand by our recommendation that Management required the CA to demand payment of liquidated damages and immediately avail the remedies provided in the Agreement against the Contractor.

8. The Alyansa ng Mamamayan sa Valenzuela Multi-Purpose Cooperative (AMVA-MPC) Project completed at a cost of P704.082 million under the HDHP, is inhabited by 853 occupants or 60 per cent of the 1,440 total Member Beneficiaries (MBs) approved by the Department of the Interior and Local Government (DILG), without the necessary documentary requirements prescribed under Corporate Circular No. 16-046 and Corporate HDH Circular No. 17-013, thus, casting doubt on the eligibility of the occupants as the intended rightful recipients of the Program. This would deprive the original MBs living along waterways and danger zones of their right to own decent and affordable housing units, failing to achieve the objectives of the Program.

8.1 The Aquino administration has allocated a total of P50 billion for five years for the ISFs Housing Project which aims to clear the easements along the waterways in Metro Manila of structures and to provide in city and near site relocation of the affected families. This complements the Flood Management Master Plan of the DPWH which shall impact the Metro Manila population as well as nearby cities.

8.2 Corporate HDH Circular No. 17-013, series of 2017, on the Guidelines on Substitution for the Completion of the Lease Purchase Agreement/Lease Agreement and Masterlist of Beneficiaries and Loan Apportionment for HDH Projects provides the following salient features:

> *Section 2. Completion of the Lease Purchase Agreement (LPA)/Lease Agreements (LA) and the Masterlist of Beneficiaries and Loan Apportionment (MBLA)*
>
> *The LPA/LA and the MBLA shall be submitted to SHFC after the issuance of Notice of Approval and prior to the start of site development and house construction. Xxx*
>
> *Section 3. Conduct of LPA/LA Orientation and LPA/LA Signing Day*
>
> *To ensure that LPA/LA are completed and submitted after the issuance of the Notice of Approval and prior to the start of the site development and house construction, an LPA/LA orientation and signing day shall be conducted. This shall be organized and scheduled by SHFC. Refusal to sign the LPA/LA on the signing day shall be a ground for substitution. The HOA shall immediately*

submit to SHFC the list of names of MBs who refused to sign and the following requirements for substitution:

a. *One government issued ID;*
b. *Filled up substitution form by the substitute;*
c. *MBLA;*
d. *Notarized HOA Board Resolution recommending the substitution; and*
e. *HOA/ SHFC certification of the absence without justifiable reason or refusal to sign.*

Section 4. Review of the LPA/LA and the MBLA

To ensure that the MB's availing of HDH financing are the same MB's at the start and at the completion of the housing project, SHFC shall review and validate prior to the start of the site development and prior to the occupancy of the housing unit. In this way, SHFC is able to monitor the MBs who have remained interested in their HDH project.

Section 5. Substitution

The following are the grounds for substitution of MB's in the List of Beneficiaries in the HDH projects:

a. *Execution of a notarized Voluntary Waiver of Rights; or*
b. *Disinterested MBs (those who have transferred their residence to another location or migrated to the province) or MB's who are absent and missing and cannot be located; or*
c. *Refusal to sign the LPA/LA on the signing day; or*
d. *Death of an MB; or*
e. *Violation of the MB of the policies rules, regulations and guidelines of the HOA (provided the same is not illegal or contrary to the guidelines of SHFC) and/or SHFC or existing laws or ordinances of the locality; or*
f. *Final and executory decision from the courts or quasi-judicial body to substitute the MB.*

Section 6. Requirements for Substitution

On the ground of disinterested MBs (those who have transferred their residence to another location or migrated to the province), or MB's who are absent and missing and cannot be located, SHFC shall publish in a newspaper of general circulation the demand to show cause why the MB based on his disinterest or indifference towards the HDH project, should not be substituted. If there is no response after the prescribed time stated in the publication, the HOA shall initiate the substitution process and submit the following requirements:

a. *One government issued ID;*
b. *Filled up substitution form by the substitute;*
c. *MBLA;*
d. *Notarized HOA Board Resolution recommending the substitution; and*
e. *Proof of publication (from HDH or Loan Processing Group).*

Section 7. DILG Validation and Certificate of Eligibility (HDH Projects)

The SHFC/HOA shall immediately submit the Board Resolution recommending the substitution to the DILG upon receipt of the following:

- *Voluntary Waiver of Rights; or*
- *Lapse of the prescribed time stated in the publication; or*
- *Execution of the HOA affidavit on the commission of a violation; or*
- *Execution of HOA certification of refusal to sign on signing day; or*
- *Receipt of the final and executory decision to substitute the MB.*

8.3 Further, Corporate Circular No. 16-046 dated November 9, 2016 provides guidelines on the substitution of MBs which shall be initiated by the CA or SHFC, to wit:

I. Coverage/Grounds for Substitution

The Masterlist of MBs submitted as part of the CMP loan application is deemed final and may not be amended during the term of the loan or extension thereof except when there is a valid substitution of the MB due to the following grounds:

1. *MB has executed a notarized Voluntary Waiver of Rights on his/her allotted lot/unit;*
2. *MB is an absentee MB (absentee is defined as (a) failure to occupy the assigned lot/unit without justifiable reason when they are supposed to under existing CMP and HDH guidelines; or (b) MB has impliedly abandoned the project by transferring his/her residence to another location; or (c) general disinterest in the project by being absent for a long period of time and MB can no longer be located); (as amended on CMP Corporate Circular No. 17-048)*
3. *Existence of final and executory decision or order from the court or quasi-judicial body directing the MB to be substitutes;*
4. *Upon death of an MB and his/her Mortgage Redemption Insurance (MRI) proceed is insufficient to cover arrears in loan amortization; and*

5. *When any of the following occurs constituting an event or default under the LPA/LA signed by the MB and the CA with the community. Xxx*
6. *Unjustified refusal to sign the LPA/LA on the signing day organized and scheduled by SHFC. (additional item per CMP Corporate Circular No. 17-048)*

II. Eligibility of Substitutes

To become eligible, all substitutes must comply with the following requirements:

a. *Eighteen (18) years of age but not more than sixty (60) years except where the rules of succession apply;*
b. *Filipino Citizen;*
c. *Not a real property owner or co-owner;*
d. *Not a beneficiary of any socialized housing project of the government;*
e. *Not a professional squatter as defined in Republic Act No. 7279; and*
f. *All substitutes must be living along waterways and other danger zones as endorsed by the CA and certified by the DILG.*

IV. Process and Approval of the Substitution

A. *SHFC shall conduct necessary due diligence on the application through the evaluation of documents, checking for double availment, verification of information or data submitted to SHFC, sending of confirmation letters or posting in public places, conduct of site visit, and/or such other means that will enable SHFC to validate the facts on the ground. The results or findings of the SHFC account officer shall be contained in a memo report containing his/her recommendation on whether or disapprove the substitution.*

8.4 The AMVA-MPC Project under the HDHP is an in-city relocation site intended for 1,440 families of which 538 MBs came from Barangay T. de Leon abutting Tullahan River, 513 MBs from Barangay Ugong abutting Tullahan River under the bridge and 389 MBs from Barangay Ugong under the NPC transmission line.

8.5 Records show that the AMVA-MPC obtained from SHFC, a loan amounting to P107.513 million under the HDHP for the purchase of lot (Phase I) consisting of 42,705 square meters, located at La Mesa St., Barangay Ugong, Valenzuela City. Additional loan amounting to P540.487 million for Phase II was obtained for the site development, building construction and provision of loft. The total project cost of P704.082 million is accounted for as follows:

Particulars	Total Cost	Share per MB (total of 1,440 MBs)
Direct Costs (Loan by CA)		
Phase 1 –		
Lot Acquisition	107,512,500	74,661
Total for Phase I	107,512,500	74,661
Phase II		
Site Development	58,087,500	0
Building Construction (forward)	410,400,000	0
Provision of Loft	72,000,000	0
Total for Phase II	540,487,500	375,339
Total Direct Costs - Phases I and II	**648,000,000**	**450,000**
Indirect Costs (Subsidy)		
Phase I		
Taxes and Related fees	2,880,000	0
CSO Incentive	2,160,000	0
Admin Subsidy	2,880,000	0
Total - Phase I	7,920,000	0
Phase II		
CSO Incentive Construction Phase	576,000	0
Post Occupancy Phase	1,440,000	0
Taxes and Related fees	14,400,000	0
Insurance Subsidy		
MRI - 1 year advance payment	3,188,180	0
FAPI - 1 year advance payment	477,857	0
Professional Fees		
Technical Plans and related fees	8,995,125	0
Construction Project Monitoring Fees	5,404,875	0
Capacity Building and Estate Management	13,680,000	0
Total - Phase II	48,162,037	0
Total Indirect Costs - Phases I and II	**56,082,037**	**0**
Total Project Costs - Phases I and II	**704,082,037**	**450,000**

8.6 Total loan of the CA amounted to P648.000 million, payable in 30 years at 4.5 per cent interest rate per annum. Loan apportionment amounted to P450,000 for each of the 1,440 MBs with monthly amortization of P1,310 for the first ten years and with an annual increase of ten per cent per year for ten years and fixed rate of interest starting on the 11th year up to the 30th year.

8.7 The AMVA-MPC Project consists of 30 low-rise, three-storey buildings and each unit has 39.73 square meters including comfort room and loft. Each building houses 48 MB families.

8.8 On September 5, 2018, the AMVA-MPC issued a Certificate of Completion and Acceptance (COCA). The MBs started paying their monthly amortization in November 2018 until April 2019 through the CA. Due to the rising conflicts between the MBs and the CA, amortization payments were stopped and the matter was brought to the attention of the City Mayor of Valenzuela. The direct payment to SHFC was the scheme made as the alternative mode of payment.

8.9 Comparison of the Masterlist of MBs furnished by the DILG against SHFC's records as published in the newspaper of general circulation dated November 12, 2013 for the purpose of signing the LPA disclosed that the two records were the same. Comparison of MBs in the SHFC/DILG Masterlist against the Abstract of Collections attached to the payments made by AMVA-MPC, however, revealed that a total of 853 occupants, which corresponds to 60 percent of the 1,440 total MBs, who are paying monthly amortizations are not included in the published masterlist of DILG. The said MBs are not in the original list as certified by the DILG and in the records of the SHFC, as shown below:

Building No.	Masterlist (Original MBs)		Number of Substitutes (Payments Based on DILG and SHFC Masterlists)						Total Number of Substitutes	% per Building
	DILG	SHFC	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019		
1	48	48	27	0	0	0	0	0	27	56.25
2	48	48	17	0	0	0	0	0	17	35.42
3	48	48	33	1	0	0	0	0	34	70.83
4	48	48	37	0	0	0	0	0	37	77.08
5	48	48	30	0	0	0	0	0	30	62.50
6	48	48	14	0	0	0	0	0	15	31.25
7	48	48	32	1	0	0	0	0	33	68.75
8	48	48	40	1	0	0	0	0	40	83.33
9	48	48	33	0	0	0	0	0	33	68.75
10	48	48	22	0	0	0	0	0	22	45.83
11	48	48	30	0	0	0	0	0	30	62.50
12	48	48	36	0	0	0	0	0	36	75.00
13	48	48	45	1	0	0	0	0	46	95.83
14	48	48	8	0	0	0	0	0	8	16.67
15	48	48	28	0	0	0	0	0	28	58.33
16	48	48	31	1	0	0	0	0	32	66.67
17	48	48	26	0	0	0	0	0	26	54.17
18	48	48	36	0	0	0	0	0	36	75.00
19	48	48	19	0	0	0	0	0	19	39.58
20	48	48	24	0	0	0	0	0	24	50.00
21	48	48	25	0	0	0	0	0	25	52.08
22	48	48	35	0	0	0	0	0	35	79.92
23	48	48	25	0	0	0	0	0	25	52.08
24	48	48	24	0	1	0	0	0	25	52.08
25	48	48	22	0	1	0	0	0	23	47.92
26	48	48	36	0	2	0	0	0	38	79.17
27	48	48	28	0	0	0	0	0	28	58.33
28	48	48	25	0	0	0	0	0	25	52.08
29	48	48	27	0	0	0	0	0	27	56.25
30	48	48	29	0	0	0	0	0	29	60.42
	1,440	**1,440**	**844**	**5**	**4**	**0**	**0**	**0**	**853**	**59.93**

8.10 It can be gleaned from the above table that nine substitutes reported in October 2018 were again substituted in November and December, staying only for one month in the units. This is an indication that these MBs have no intention of acquiring housing units in the HDH project.

8.11 Interview with the Account Officer disclosed that, as to date, the AMVA-MPC has not submitted any document pertaining to the substitution of the 853 MBs, contrary to the Corporate HDH Circular Nos. 17-013 and 16-046, thus, validity of the substitution as well as approval by proper authorities could not be ascertained. Moreover, it was also observed that payments from the substitutes were accepted by SHFC, although no substitution process has been approved by the SHFC.

8.12 The Account Officer in charge of the project conducted validation of occupancy/residency on the project site on March 18 to June 9, 2019. Results of the validation are as follows:

Building No.	No. of Units Visited	No. of MBs in the DILG COE	No. of MBs Not in the DILG COE	Occupied but no MBs/ Immediate families at home during validation (not verified with DILG Masterlist)	Not Occupied (Vacant) (not verified with DILG Masterlist)
1	48	23	25	0	0
2	48	32	13	3	0
3	48	12	35	0	1
4	48	11	36	0	1
5	48	17	29	2	0
6	48	32	14	2	0
7	48	15	25	7	1
8	48	6	38	2	2
9	48	10	36	2	0
10	48	16	32	0	0
11	48	14	34	0	0
12	48	12	35	1	0
13	48	3	44	1	0
14	48	44	4	0	0
15	48	15	24	5	4
16	48	18	29	1	0
17	48	24	24	0	0
18	48	12	35	1	0
19	48	28	17	3	0
20	48	28	20	0	0
21	48	25	22	1	0
22	48	16	32	0	0
23	48	20	26	2	0
24	48	19	27	2	0
25	48	19	27	2	0
26	48	8	40	0	0
27	48	14	34	0	0
28	48	17	31	0	0
29	48	10	35	3	0
30	48	11	36	1	0
Total	**1,440**	**531**	**859**	**41**	**9**
	1,440			**1,440**	

8.13 Only 531 or 37 per cent of the 1,440 MBs in the Masterlist of the DILG with Certificate of Eligibility (COE) were validated to be original MBs while 859 MBs, or 60 per cent are not in the Masterlist and are deemed to be undocumented occupants. The remaining 50 or three per cent, consists of 41 housing units which are occupied but nobody was around at the time of validation, while nine units are vacant/not occupied with no personal properties found in the units. Validation by SHFC against the Abstract of Collection disclosed that six additional substitutes were found to be paying under a different name.

8.14 The notarized LPAs/LAs which serve as the document of the MBs' commitment to avail of the HDH financing, were not submitted to SHFC, contrary to Corporate Circular HDHP No. 15-006, series of 2015[1] stating that the HOA is required to submit to SHFC the complete set of notarized LPA/LA of MBs during the second to the last drawdown of the funds allotted for building construction. Thus, SHFC was not able to monitor the MBs who remained interested in the AMVA project, despite publication in the newspaper dated June 4, 2017, which invited all members of the AMVA included in the DILG Masterlist to attend the LPA Orientation and signing on June 14, 15 and 16, 2017. Despite the orientation made in June 2017 and notices to MBs on their failure to attend and sign the LPA without any valid reason as ground for substitution, the AMVA-HOA has failed to submit the LPAs/LAs of the MBs to the SHFC.

8.15 The survey conducted through a set of questionnaires given to MBs presently occupying the units on a random basis disclosed that some substitutes obtained access to their units by paying a certain amount to the Members/Officers of the CA without getting Official Receipts in return. Since no documents were submitted by the CA to SHFC, eligibility of the substitutes and the substitution process could not be validated.

8.16 The only time that a substitute can avail his/her right to own an HDH housing unit and have it transferred under his/her name is when the precedent MB is in the original Masterlist, approved by the DILG, waived his right due to a valid reason as stated under Corporate Circular No. 16-046 on the grounds for substitution.

8.17 In order for the substitution process to be given due course by SHFC, the documents required under Corporate Circular No. 16-045 have to be submitted by the CA/Cooperative to SHFC for validation before the substitution of rights can take place.

8.18 Failure of the CA/Cooperative to submit the required documents of the substitute MBs, casts doubt on the latter's eligibility as the rightful recipients, depriving the original MBs their right to own decent and affordable housing units. Moreover, the objectives of the Program to relocate informal settler families living along waterways and danger zones were not attained.

8.19 **We recommended that Management:**

a. **Conduct a thorough validation of occupants in the HDH units as against the original masterlist of MBs from DILG, and submit an Updated Masterlist of Beneficiaries to the latter for Certification;**

[1] Period for Completion and Submission of Lease/Purchase Agreements under the High Density Housing Program.

b. **Require the CA to submit to SHFC the required documents for substitution of the actual occupants to avoid eviction and unauthorized substitution of the original MBs; and**

c. **Abide strictly with the guidelines on substitution of MBs as provided under Corporate Circular No. 16-046 and Corporate Circular HDH No. 17-013 to ensure that the recipients are the rightful beneficiaries of the Program.**

8.20 Management commented that they have already completed the validation of the occupants on the HDH Units and submitted the results of the said validation to the Screening Committee of the AMVA Council to finally determine the status of occupants and the number of member beneficiaries who are qualified.

8.21 The Screening Committee is composed of the LGU – Housing Resettlement Office (LGU-HRO) of Valenzuela, Cooperative Development Authority (CDA), SHFC, representative from the HOA officers and from non-occupant original MBs. The Committee will finally identify the status of membership and determine the number of members who are qualified to vote in the General Assembly.

8.22 SHFC consistently emphasized to the Council, including the occupants, that only those certified and endorsed by DILG are recognized as original MBs and that substitution requests should be submitted for processing in accordance with the rules of substitution.

9. **Public bidding was not conducted for the acquisition of insurance provider to manage the Group Mortgage Redemption Insurance (MRI) of loan borrowers of the CMP and other similar home financing programs of SHFC, contrary to RA No. 9184, otherwise known as the Government Procurement Reform Act, thus, defeating the purpose of possibly selecting from among participating insurance brokers a better package for the benefit of the MBs who are low income bracket borrowers that SHFC caters.**

9.1 Section 2, Rule I of the 2016 Revised IRR of RA No. 9184, states that in line with the commitment of the Government of the Philippines (GoP) to promote good governance and its effort to adhere to the principles of transparency, accountability, equity, efficiency, and economy in its process, it is the policy of the GoP that procurement of Goods, Infrastructure Projects and Consulting Services shall be competitive and transparent, and therefore shall undergo competitive bidding, except as provided in Rule XVI of the IRR.

9.2 The law applies to the procurement of Infrastructure Projects, Goods and Consulting Services regardless of source of funds, whether local or foreign, by all branches and instrumentalities of the government, its departments, offices and agencies, including government-owned and/or controlled corporations and local government units, subject to the provisions of Commonwealth Act No. 138.

9.3 SHFC is the lead government agency to undertake social housing programs that cater to the formal and informal sectors in the low-income bracket and shall take charge of developing and administering social housing program schemes, particularly the CMP and the Abot-Kaya Pabahay Fund (AKPF) Program (amortization support program and developmental financing program).

9.4 The Mortgage Loan is the real estate loan for housing and/or lot purchase, secured by a real estate mortgage (REM) granted to a mortgagor by SHFC and repayable by monthly installments over a fixed period of years. It also covers reconstructed loans applied by the borrower and repayable up to the extent of the regular/original loan or as applicable and provided by SHFC.

9.5 All borrowers of the CMP and such other similar home financing programs who are not beyond the age of sixty-five at take-out/date are eligible to the Group MRI, including duly approved substitute member-beneficiary who was subjected to the mandated underwriting requirements.

9.6 In December 2006, SHFC entered into a Memorandum of Agreement (MOA) with an Insurance Pool, a consortium of life insurance companies in the Philippines to administer the Group MRI for the benefit of the SHFC and the borrower's account under the lending program. The MOA retroacted in January 2006.

9.7 The Insurance Pool, a private entity is the insurance provider of the NHMFC. When SHFC took over the administration of the social housing program for the formal and informal sectors in the low-income bracket, the existing insurance provider of NHMFC also took charge of the administration of the turned-over accounts by the NHMFC and the current accounts maintained by SHFC. Verification disclosed that no public bidding was conducted in the acquisition of the insurance provider of the SHFC for its member-borrowers since its creation on January 20, 2004.

9.8 For CYs 2017 to 2019, SHFC had remitted to the Insurance Pool the MRI premiums for the housing loans of the member-beneficiaries, detailed as follows:

Year	Amount
2017	47,726,097
2018	44,910,658
2019	47,932,437

9.9 Further verification disclosed that the MOA is silent as to the duration or validity of the Agreement. Article VIII of the Agreement on the effectivity/termination only states that the MOA shall be subject to termination by either party by giving notice to the other within 90 days prior to termination and it is understood that it shall include/cover those previously enrolled by the NHMFC.

9.10 Management commented that previously, the selection of insurance provider was done through Quotations and Proposals which were then submitted to the Chairman and Members of the Board for approval. Further, upon review and based on the representation of the responsible officers of the SHFC, it appeared that the proposal of the Insurance Pool is the most viable and advantageous among the five insurance companies that submitted proposals.

9.11 We emphasized that pursuant to Section 52.1 of RA No. 9184, Shopping is a method of procurement of goods whereby the Procuring Entity simply requests for the submission of price quotations for readily available off-the-shelf goods or ordinary/regular equipment to be procured directly from suppliers of known qualifications. This method shall be employed in the following cases:

a. when there is an unforeseen contingency requiring immediate purchase, the amount shall not exceed P200,000; and

b. procurement of ordinary or regular office supplies and equipment not available in the Department of Budget and Management – Personnel Services (DBM-PS), in the amount not to exceed P1,000,000.

9.12 Thus, the process of only submitting price quotations is not applicable for the procurement of MRI coverage provider considering that for CYs 2019 and 2018, SHFC disbursed P47.932 million and P44.911 million, respectively, to the Insurance Pool. The applicable mode of procurement is public bidding so that Management could secure the best provider at the lowest practicable price, and for the benefit of the MBs. SHFC did not adhere strictly to the provisions of RA No. 9184, defeating the principle of transparency, accountability, equity, efficiency and economy.

9.13 On December 18, 2019, a meeting was conducted by representatives of the Legal Affairs and the Insurance and Community Enhancement Departments of SHFC with the Deputy Commissioner, Insurance Commission, to discuss the procurement of a new insurance provider and other related laws and procedures in terminating the present insurance service provider, the Insurance Pool. The Insurance Commission advised SHFC to coordinate with GSIS the request to know if the latter can act as the interim insurer.

9.14 Management further disclosed that to date, the opinion of the Office of the Corporate Government Counsel (OGCC) on the Trust Agreement in relation to SHFC's proposed establishment of an Interim Trust Fund was already endorsed with the Land Bank of the Philippines (LBP) – Head Office.

9.15 Through public bidding, Management could possibly select from among the participating insurance brokers, a better package for the benefit of the MBs who are low income bracket borrowers.

9.16 **We reiterated our prior year's recommendation that Management strictly comply with the provision of RA No. 9184 to conduct public bidding for the provisions of the group MRI to loan borrowers.**

9.17 **We further recommended that Management fast-track the process of procuring the services of an insurance provider through public bidding.**

9.18 Management commented that actions have been taken to resolve the issue at hand and informed the Audit Team of the timeline of the events and the status of its resolutions. To date, OGCC's opinion on the Trust Agreement with LBP has been endorsed to the Branch Head for revision and consideration and is still awaiting for their response on the said matter.

9.19 As a rejoinder, we stand by our audit recommendation that Management fast-track the process of procuring of the services of an insurance provider through public bidding.

10. The granting by SHFC of car loans amounting to P70.831 million to its officers and Board of Directors (BODs) is contrary to the Car Plan approved by the Office of the President (OP) of the Philippines for Government Financial Institutions (GFIs), as the benefit applies only to those that do not receive subsidy from the National Government (NG), thus rendering the car plan irregular. Moreover, loan balance amounting to P1.794 million of BODs who availed of the car plan after the publication of Executive Order (EO) No. 24 on February 10, 2011, as amended by the Governance Commission for Government-Owned or Controlled Corporations (GCG) Memorandum Circular (MC) No. 2016-01, still remain outstanding as at December 31, 2019, but which should have already been due and demandable.

10.1 Rules and Regulations for the Implementation of the Motor Vehicle Lease-Purchase Plan for GFI Officials were issued pursuant to Monetary Board Resolution No. 132 to govern the implementation of the Motor Vehicle Lease-Purchase Plan for GFI Officers. The nature of the "Plan" involves the acquisition of motor vehicles to be leased/sold to qualified GFI officers. The plan is part of the package of fringe benefits for GFI officers to enable them to meet the demands of their work with more facility and efficiency and provide them with economic means of coping with the prestige and stature attendant to their respective positions.

10.2 Section 3 of the said Resolution enumerates the following as eligible under the Car Plan:

(a) Members of the GFI Governing Board;

(b) Any officer based in the Philippines and holding a permanent appointment to his position, irrespective of years of service in the GFI; Provided, that, he does not have any pending administrative case, nor is he serving any penalty for an administrative case.

The benefit shall be limited only to GFI's that do not receive subsidy from the national government. (emphasis supplied)

10.3 Verification of the Notices of Cash Allocation received by SHFC disclosed that from CYs 2009 to 2019, it has received a total subsidy of P8.775 billion from the National Government.

Year	Amount
2009	500,000,000
2010	250,787,664
2011	462,140,244
2012	1,250,000,000

(Forward)

Year	Amount
2013	11,300,710
2014	806,919,084
2015	978,968,849
2016	1,975,797,545
2017	1,221,669,800
2018	590,247,183
2019	727,506,829
	8,775,337,908

10.4 Section 8 on Compensation Structure of E.O. No. 24 provides that:

The compensation of members of the Board of Directors/Trustees shall have the following components:

a) Compensation shall be in the form of per diems Xxx;
b) Compensation in the form of Performance-Based Incentives may be allowed and shall be based on agreed upon metrics Xxx;
c) Annual Retainer Fees and Stock Plans shall not be allowed; and
d) Salaries, Allowance, Benefits, and other Bonuses shall not be allowed unless specifically authorized by law or Charter and approved by the President, provided that the total of foregoing compensation and per diems shall not exceed the limits stipulated under Sections 9 and 10 hereof.

10.5 Section 23 of RA No. 10149, GOCC Governance Act of 2011, provides that the charters of each of the GOCCs to the contrary notwithstanding, the compensation, per diems, allowances and incentives of the members of the Board of Directors/Trustees of the GOCCs shall be determined by the GCG using as a reference, among others, Executive Order No. 24 dated February 10, 2011. Provided, however, That Directors/Trustees shall not be entitled to retirement benefits as such directors/trustees.

10.6 GCG MC No. 2016-01 provides the following:

Director's Compensation Structure – Unless otherwise revised by the GCG in accordance with its power under Section 23 of RA No. 10149, the Compensation Structure for Appointive Directors shall remain limited to the following components:

(a) Per Diems, but only up to the limits provided in Section 9 Xxx
(b) Performance - Based Incentives (PBI) in accordance with Chapter IV herein.

10.7 As such, the car loan, which is considered as an additional benefit, is not among the components of a Director's compensation structure in the foregoing statute.

10.8 Moreover, the forgone interests, considered as other fringe benefits without the approval of the OP, are not consonant with Section 5 of PD No. 1597. Should the grant of the car loans be approved by the OP, such would be subject to fringe benefit tax as required under Item No. 5 of Section 2.33 (B), under the Bureau of Internal Revenue Regulation (BIR-RR) No. 3-98.

10.9 Records show that 91 SHFC officials and BODs availed of the car loan since 2009 under the account Loans Receivables – Others (Car Loan) amounting to P70.831 million, exclusive of the Registration fees and Comprehensive Insurance (RCI) and Mortgage Redemption Insurance (MRI), as detailed below:

Salary Grade/Position	No. of Availee/s	Total Loan Amount
20*	1	500,000
22	35	21,880,000
24	6	3,600,000
26	31	25,285,000
27	6	6,144,000
28	2	1,997,000
29	3	3,600,000
BODs	7	7,825,000
	91	**70,831,000**

Note: *Based on "Schedule of Car Loans" as of December 31, 2019 provided by the Corporation.*
** SHFC Officer in Acting capacity or designated as Ad Hoc.*

10.10 Review of records revealed that three members of the Board have car loan balances totaling P1.794 million as at December 31, 2019. These car loans were availed after the publication of EO No. 24 in the Official Gazette on February 10, 2011, amended by GCG MC No. 2016-01 published on June 22, 2016. The loan balances are already due and demandable, to wit:

Availee	Loan Availment	End of Term	Outstanding Loan Balance
A	March 2016	February 2026	750,000
B	January 2015	December 2024	600,000
C	January 2016	December 2025	444,375
			1,794,375

10.11 The granting of car loans by SHFC to its officers is contrary to the Car Plan approved by the OP for GFIs because it receives subsidy from the NG, rendering the car plan irregular. Moreover, loan balance of members of the Board who availed of the car plan before the issuance of GCG MC No. 2016-01, still remain outstanding as at December 31, 2019, but which should have been already due and demandable.

10.12 **We recommended that Management:**

a. **Secure a post-facto approval from the OP, through the GCG, of SHFC's Car Plan to its officers;**

b. **Require the three members of the Board to immediately settle the amount of P1.794 million to comply with the provisions of GCG MC No. 2016-01; and**

c. **Suspend the granting of car loans until approval from the OP is secured.**

10.13 Management commented that they will be seeking OP's approval of SHFC's car plan, through the GCG, and that they will be sending formal letters to the three members of the Board to require them to immediately settle their loan balances. The suspension on the grant of car loans, however, is not yet implemented since this is still subject for discussion.

10.14 As a rejoinder, we stand by our recommendation that Management suspend the granting of car loan to its employees until approval from the OP is secured. Continuous grant of car loan without the said approval makes the grant irregular, which is subject to disallowance. Also, we emphasize that should the grant of car loans be approved by the OP, such would be subject to fringe benefit tax as required under Item No. 5 of Section 2.33 (B), under BIR-RR No. 3-98

11. Extraordinary and Miscellaneous Expenses (EME) amounting to P2.990 million were granted to the President of SHFC through cash advance, contrary to COA Circular No. 2006-001, defeating the purpose of regulating the incurrence of said expenditures.

11.1 COA Circular No. 2006-01 dated January 3, 2006 provides the following guidelines on EME and other similar expenses in Government-Owned or Controlled Corporations/Government Financial Institutions and their Subsidiaries:

> *II. It shall cover extraordinary and miscellaneous expenses and other similar expenses such as discretionary, business development expenses, representation expenses and the like provided that the purpose of said expenditures pertain to any of the above cited expenses under the GAA.*
>
> *III. Audit Guidelines as follows:*
>
> 1. *The amount of EME, as authorized in the corporate charter of the GOCC/GFIs shall be the ceiling in the disbursement of these funds. Where no such authority is granted in the corporate charter and the authority to grant EME is derived from the GAA, the amounts fixed thereunder shall be the ceiling of the disbursements;*
> 2. *Payment of these expenditures shall be strictly on a non-commutable or reimbursable basis;*
> 3. *The claim for reimbursement of such expenses shall be supported by receipts and/or documents evidencing disbursements; and*
> 4. *No portion of the amounts appropriated shall be used for salaries, wages, allowance, intelligence and confidential expenses which are covered by separate appropriations.*

11.2 Section 47 of the General Provisions of the 2019 General Appropriations Act (GAA) on EMEs states that:

Appropriations authorized in this Act may be used for the annual extraordinary expenses of the following officials with the following ranks and their equivalent, as maybe determined by DBM, not exceeding the amounts indicated:

a. *P264,000 for each Department Secretary;*
b. *P108,000 for each Department Undersecretary;*
c. *P60,000 for each Department Assistant Secretary;*
d. *P45,600 for each of bureau or organization of equivalent rank, and for each head of Department Regional Office including General Manager of Local Water District Category A and B;*
e. *P26,400 for each head of Bureau Regional Office or organization of equivalent rank including, General Manager of Local Water District in Category C and D; and*

xxx

In addition, annual miscellaneous expenses not exceeding Seventy-two thousand pesos (72,000) for each of the officers under the above named officials and their equivalent are authorized herein.

For the purpose, Extraordinary and Miscellaneous expenses include, but not limited to, expenses incurred for:

a. *Meetings, seminars, conferences;*
b. *Official entertainment;*
c. *Public Relations;*
d. *Educational, athletic and cultural activities;*
e. *Contributions to civic or charitable institutions;*
f. *Membership in government associations;*
g. *Membership in national professional organizations duly accredited by the Professional Regulations Commission;*
h. *Membership in the Integrated Bar of the Philippines;*
i. *Subscription to professional technical journals and informative magazines, library books and materials;*
j. *Office equipment and supplies; and*
k. *Other similar expenses not supported by the regular budget allocation.*

In case of deficiency, the requirements for the foregoing purposes shall be charged against available allotments of the agency concerned. No portion of the amounts authorized herein shall be used for payment of salaries, allowances and other similar benefits, and confidential and intelligence expenses.

11.3 The Discretionary, Extra-Ordinary and Miscellaneous Expenses in the DBM-approved Corporate Operating Budget (COB) for CY 2019 amounted to P3.742 million. Since SHFC has no approved Charter, the following allowable rates prescribed under the GAA for 2019 will be used as the ceiling for the disbursements:

Position	Equivalent Position under the GAA	GAA Extraordinary	GAA Miscellaneous	Total	DBM-Approved COB
President	Department Undersecretary	108,000	72,000	180,000	
Executive Vice President	Department Assistant Secretary	45,600	72,000	117,600	
5 Vice Presidents	Head of Offices/Group	26,400	72,000	98,400	
					3,742,090

11.4 Verification of the Subsidiary Ledger revealed that the EME account amounted to P3.486 million as at December 31, 2019, consisting of expenditures of P495,910 for the Executive Vice President (EVP) and five Vice Presidents (VPs) and discretionary fund amounting to P2.990 million for the President, as detailed below:

Plantilla Position	No. of Months Served	EME Limit under GAA	EME Received	EME Variance	Remarks
President	12	180,000	2,990,135	2,810,135	
EVP	11	117,600	117,600	0	
VP - Office of the Board Secretary and Compliance Officer	7	57,400	50,354		Compulsory retirement January 30, 2016, with extension up to July 30, 2019
VP- Treasury Group	10	82,000	82,051	51	Compulsory Retirement May 6, 2019 with extension up to November 6, 2019
VP - Legal Services and Visayas and Mindanao Group	12	98,400	98,305	(95)	
VP - NCR and Luzon Group	11	98,400	98,400	0	
VP - Management Services Group	6	49,200	49,200	0	Promoted from Manager to VP on July 1, 2019
		683,000	**3,486,045**	**2,810,091**	
DBM-approved COB			**3,742,090**		

11.5 As gleaned from the above table, the EME (discretionary fund) of the President exceeded the annual GAA limit of P180,000 by P2.810 million. The amount of EME fixed under the GAA was not used as the benchmark.

11.6 Verification of the Disbursement and Journal Vouchers disclosed that the EME granted to the EVP and the five VPs were disbursed on a reimbursable basis and within the limits prescribed in the GAA. On the other hand, the EME (discretionary fund) of the President was granted in the form of Cash Advance of P250,000 per month which is not in accordance with COA Circular No. 2006-001 which provides that the EME shall be strictly on a non-commutable or reimbursable basis.

11.7 Validation of the Official Receipts (ORs) attached to the liquidation vouchers disclosed the following:

a. Monthly cash advance amounting to P250,000 for EME and the corresponding liquidation are summarized as follows:

Date of Cash Advance	Check No.	Amount	Date of Liquidation	JEV	Amount	Remarks
	93168				22,062	Reimbursement
01/28/2019	93120	227,000	03/05/2019	2019030004	223,871	
02/22/2019	93416	250,000	03/27/2019	2019030022	249,784	
03/28/2019	93809	250,000	05/03/2019	2019050003	249,886	
05/03/2019	94147	250,000	05/29/2019	2019050019	249,538	
05/29/2019	98611	250,000	06/26/2019	2019060007	249,851	
06/02/2019	98928	250,000	07/22/2019	2019070018	249,702	
70/25/2019	99098	250,000	08/23/2019	2019080017	249,927	
08/27/2019	99567	250,000	09/24/2019	2019090013	249,279	
09/26/2019	103513	250,000	10/30/2019	201900034	249,730	
11/04/2019	104036	250,000	11/27/2019	2019110031	249,788	
11/04/2019	107537				238,069	Reimbursement
12/05/2019	107227	250,000			258,650	Accrual-liquidated on January 2020
		2,727,000			**2,990,137**	

b. Liquidation reports of the EME consisted of meals, hotel accommodations, plane fares and catering services. Review of supporting documents disclosed that meal expenses representing 91 per cent of the total EME, were supported with two to 15 ORs a day, including weekends and holidays, as shown below:

Particulars	Amount	Percentage
Meals	2,723,622	91.09
Hotel accommodations	6,980	.23
Plane fares and land transportation	146,317	4.89
Rebooking Fees	8,426	.28
Catering Services	104,790	3.51
	2,990,135	**100.00**

Meal expenses for the services rendered by the catering service during weekends and holidays are liquidated without the necessary documents that will prove that the meals were intended for official business.

c. Despite the monthly grant of cash advance, the ORs supporting the monthly liquidation pertained to the previous three to four months as shown below:

Period of Cash Advance	Liquidation Documents/ORs
December 2019	September, October, November, December
November 2019	September, October November
October 2019	August, September, October

11.8 Thus, disbursements incurred under the EME granted through cash advance is contrary to COA Circular No. 2006-001, defeating the purpose of regulating the incurrence of said expenditures.

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

a. **Limit the allocation and disbursement of funds within the rates prescribed under the GAA;**

b. **Disburse funds for EME strictly on a non-commutable or reimbursable basis pursuant to COA Circular No. 2006-001; and**

c. **Exercise prudence in the utilization of funds to ensure that the EME are used only for the purpose for which they are established.**

12. **Excess retirement benefits amounting to P426,215 were paid to two personnel, due to inclusion in the computation of services rendered during the period of extension upon reaching the compulsory retirement age of 65, contrary to implementing guidelines of RA No. 7641 or the Retirement Pay Law and Section 129 of the 2017 Omnibus Rules on Appointments. Moreover, other personnel allowances were included in the basic salary as retirement pay base, rendering the disbursement excessive pursuant to COA Circular No. 2012-03.**

12.1 Section 4 of the rules implementing RA No. 7641 provides that:

> *4.1 Optional Retirement – In the absence of a retirement plan or other applicable agreement providing for retirement benefits of employees in an establishment, an employee may retire upon reaching the age of sixty (60) years or more if he has served for at least five (5) years in said establishment.*
>
> *4.2 Compulsory Retirement – Where there is no such plan or agreement referred to in the immediately preceding subsection, an employee shall be retired upon reaching the age of sixty-five (65) years.*
>
> *4.3 Upon retirement of an employee, whether optional or compulsory, his services may be continued or extended on a case to case basis upon agreement of the employer and employee.*

> 4.4 *Service Requirement – The minimum length of service of service in an establishment or with an employer of at least five (5) years required for entitlement to retirement pay shall include authorized absences and vacations, regular holidays and mandatory fulfilment of a military or civic duty.*

12.2 In relation thereto, Section 5 of the Act enumerates the retirement benefits which the retiree is authorized to receive, viz:

Section 5. Retirement Benefits

> 5.1 *In the absence of an applicable agreement or retirement plan, an employee who retires pursuant to the Act shall be entitled to retirement pay equivalent to at least one-half (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one whole year.*
>
> 5.2 *Components of ½ Month Salary – For the purpose of determining the minimum retirement pay due an employee under this Rule, the term "one-half month salary" shall include all of the following:*
>
> a. *Fifteen (15) days of salary of the employee based on his latest salary rate. As used herein, the term "salary" includes all remunerations paid by an employer to his employees for services rendered during the normal working days and hours, whether such payments are fixed or ascertained on a time, task, piece of commission basis, or other method calculating the same, and includes the fair and reasonable value, as determined by the Secretary of Labor and Employment, or food, lodging, or other facilities customarily furnished by the employer to his employees. <u>The term does not include cost of living allowances, profit-sharing payments and other monetary benefits which are not considered as part of or integrated into the regular salary of the employees; (Emphasis supplied)</u>*
>
> b. *The cash equivalent of not more than five (5) days of service incentive leave;*
>
> c. *One-twelfth (1/12) of the 13th month pay due to the employee; and*
>
> d. *All other benefits that the employer and employee may agree upon that should be included in the computation of the employee's retirement pay."*

12.3 Meanwhile, Section 129 of the 2017 Omnibus Rules on Appointments provides that:

Section 129. No person who has reached the compulsory retirement age of 65 years can be appointed to any position in the government, except to a primarily confidential position.

A person appointed to a primarily confidential position who reaches the age of 65 is considered automatically extended in the service until the expiry date of his/her appointment or until his/her services are earlier terminated.

The extension of service of a person who will reach the compulsory retirement age of 65 years may be allowed for a period of six (6) months and in meritorious circumstances may be extended for another 6 months. The request for extension shall be made by the Head of Office. The same shall be filed with the Commission not later than 3 months prior to the date of the official/employees' compulsory retirement. <u>Services rendered during the period of extension shall no longer be credited as government service</u>. (Emphasis supplied)

12.4 Section 5.1 of COA Circular No. 2012-03 states that:

The term "excessive expenditures" signifies unreasonable expense or expenses incurred at an immoderate quantity and exorbitant price. It also includes expenses which exceed what is usual or proper, as well as expenses which are unreasonably high and beyond just measure or amount. They also include expenses in excess of reasonable limits.

12.5 Review of the retirement pay computation was limited only to two out of four retired employees since the disbursement vouchers for the remaining retirees were still in process. The review disclosed an overpayment of P426,215 between the amount paid and the audited amount based on the criteria set forth under Section 5, Retirement Benefits of the IRR of RA 7641. Details are shown below:

	Retiree A	**Retiree B**
Birthdate	01/30/1954	10/15/1953
Date Hired	11/16/2006	11/16/2006
Date Retired	07/30/2019	04/15/2019
Date of Compulsory Retirement	01/30/2019	10/15/2018
Extension of service	6 months	6 months
With President or BOD approval	Y	Y
Year of Service	12	12
1/2 of Basic Salary	P65,824	P48,156
Cash Equivalent *(daily rate x 5 days)*	30,264	22,141
1/12 of 13th month Pay Due	10,971	8,026
Total Components of 1/2 monthly salary *(retirement benefit base)*	107,059	78,323

(Forward)

	Retiree A	Retiree B
Should Be Retirement Gratuity (Retirement benefit base x 12 years)	1,284,708	939,876
Actual Retirement Paid	1,561,477	1,089,322
Overpayment	**P276,769**	**P149,446**

Daily Rate : Retiree A = P6,052.78; Retiree B = P4,428.20

12.6 Both retirees extended their government service for six months with the approval of the President and Board of Directors. Validation of retirement pay computation, however, disclosed that a total of 13 years of service was used as factor in the total gratuity paid to Retiree A, instead of 12 years and two months.

12.7 Moreover, the six-month extension of service lacks the approval of the Civil Service Commission which serves as the central personnel agency of the Government. Payments of retirement gratuity were sourced from the government funds included in their COB approved by Department of Budget and Management (DBM).

12.8 In addition, other benefits such as PERA, meal allowance, rice allowance, among others, were included as part of the retirement benefit base for both retirees, contrary to Section 5.2 of RA No. 7641 and the implementing guidelines of PD No. 851. It is prescribed under the RA No. 7641 that components of ½ month salary does not include cost of living allowances, profit-sharing payments and other monetary benefits which are not considered as part of or integrated into the regular salary of the employee. The inclusion of these allowances also contributed in the overpayment of retirement gratuity to the two retired officers.

12.9 The computation for the 1/12 of 13th month pay also included other benefits and allowance, contrary to the implementing guidelines of Presidential Decree No. 851, to wit:

> *The 13th Month Pay Law" which defined 13th month pay as 1/12 of the basic salary of an employee within a calendar year. And further defined Basic Pay as all remunerations or earnings paid by an employer to an employee for services rendered but may not include cost-of-living allowances granted and all allowances and monetary benefits which are not considered or integrated as part of the regular or basic salary of the employee.*

12.10 Further, SHFC has no retirement plan established for its employees, nor policy guidelines formulated for the processing and computation of the benefits. The formulation of implementing rules and regulations in the processing and computation of retirement pay is necessary to carry out the provisions of RA No. 7641, after consultation with the GCG which is mandated by the law to act on behalf of the government in maintaining the operations of GOCCs.

12.11 Foregoing considered, the retirement benefits of P426,215 paid to the two retired personnel is considered excessive under COA Circular No. 2012-03 due to the inclusion in the computation of the services rendered during the period of extension upon reaching the compulsory retirement age of 65 and inclusion of other personnel allowances in the basic salary as retirement pay base, contrary to the implementing guidelines of RA No. 7641 and Section 129 of the 2017 Omnibus Rules on Appointments.

12.12 **We recommended that Management:**

a. **Require the retirees concerned to refund the overpayment of retirement gratuity totaling P426,215;**

b. **Establish a retirement plan and formulate policy guidelines harmonized with the provisions of RA No. 7641 to be approved by the governing Board and submitted to GCG for its review and approval; and**

c. **Revisit the composition of the ½ month salary used as factor in the computation of retirement benefits and ensure future retirement pay-outs are in accordance with the criteria set forth in the IRR of RA No. 7641.**

12.13 Management commented that other benefits such as PERA, meal allowance, rice allowance, etc. included in the computation of the retirement gratuity are enumerated in Section 5.2 of RA No. 7641. Since these are being received on a monthly and/or fixed basis, thus had logically been conceptualized to compose the totality of the remunerations being paid to an employee. Further, these allowances are sustained in the CBA since 2008.

12.14 On the other hand, prior to the implementation, Management referred the matter to the CSC for an opinion, however, it was declined since SHFC is a private corporation whose personnel are covered by Labor Laws, Thus, Management consequently focused its compliance based on Labor Laws.

12.15 As a rejoinder, we highlight Section 5.2 (a) of RA No. 7641 which provides further exception in the general rule wherein the term salary excludes cost of living allowances, profit-sharing payments and other monetary benefits that are not considered as part of or integrated into the regular salary of employee.

12.16 This finds support in the case of San Miguel Corporation vs. Hon. Amado G. Inciong, wherein the catch-all exclusionary phrase "all allowances and monetary benefits which are not considered or integrated as part of basic salary" shows the intention to strip the basic salary of any and all additions which may be in the form of allowances or fringe benefits.

12.17 Furthermore, in the CY 2019 Edition of Handbook on Workers' Statutory Monetary Benefits published by the Bureau of Working Conditions, Department of Labor and Employment, the "one-half month salary" shall include the following: a) 15 days salary based on the latest salary rate; b) cash equivalent of five days service leave; and c) one-twelfth (1/12) of the thirteenth-month pay. Thus, it is equivalent to 22.5 days.

12.18 In the same handbook, the minimum retirement pay is equal to the Daily Rate multiplied by 22.5 days multiplied by the number of years in service. Lastly, in the case of Cebu Institute of Technology vs. Ople, it was ruled that existing laws exclude allowances from basic salary or wage in the computation of the amount of retirement and other benefits payable to an employee.

12.19 With regard to the comment of Management that the mentioned allowances are sustained in their CBA since 2008, we respectfully disagree. There is no retirement plan set up by SHFC in their CBA, hence, such allowances should not be included in the computation of retirement pay.

12.20 On the other note, we reiterate that a total of 13 years of service instead of 12 years and two months was used as factor in the total gratuity paid to Retiree A. The years of service of an employee shall cease upon reaching the mandatory age of 65 therefore, services rendered during the extended period shall no longer be credited as part of employment service.

12.21 It can be observed that the total years of service used as factor for Retiree B is correctly counted until the mandatory retirement age of 65. It translates that SHFC became aware of this error and adjusted their computation accordingly in the subsequent retirement of its employees.

12.22 Accordingly, we stand by our recommendation for Management to require the refund of the excess retirement gratuity of P426,215 paid to two retirees.

13. Monetization of leave credits was granted at more than the allowable 50 per cent of leave credits without the supporting documents required under Sections 22, 23 and 25 of the Omnibus Rules on Leave and COA Circular No. 2012-001. Moreover, non-deduction of the mandatory five-day forced leave prior to the grant of monetization casts doubt on the reliability of the employee leave records.

13.1 The Omnibus Rules on Leave prescribe the guidelines on the monetization of accumulated earned leave credits of official and employees, to wit:

> *Sec. 22. Monetization of leave credits - Officials and employees in the career and non-career service whether permanent, temporary, casual or coterminous, who have accumulated fifteen (15) days of VL credits shall be allowed to monetize a minimum of ten (10) days; provided that at least five (5) days is retained after monetization and provided further that a maximum of thirty (30) days may be monetized in a given year.*
>
> *Sec. 23. Monetization of 50% or more of vacation/sick leave credits - Monetization of fifty percent (50%) or more of the accumulated leave credits maybe allowed for valid and justifiable reasons such as:*
>
> a. *Health, medical and hospital needs of the employees and immediate members of the his/her family;*
> b. *Financial aid & assistance brought about by force majeure events such as calamities, typhoons, fire, earthquakes and accidents that affect the life, limb and property of the employee and his/her immediate family;*

c. *Educational needs of the employee and the immediate members of his/her family;*
d. *Payment of mortgages and loans which were entered into for the benefit or which inured to the benefit of the employee and his/her immediate family;*
e. *In case of extreme financial needs of his/her immediate family where the present sources of income are not enough to fulfill the basic needs such as food, shelter and clothing;*
f. *Other analogous cases as maybe determined by the Commission.*

The monetization of 50% or more of the accumulated leave credits shall be upon the favorable recommendation of the agency head and subject to availability of funds. xxx

Sec. 25. Five days forced/mandatory leave - All officials and employees with 10 days or more vacation leave credits shall be required to go on vacation leave whether continuous or intermittent for a minimum of five (5) working days annually under the following conditions:

(a) xxx

(d) Those with accumulated vacation leave of less than ten (10) days shall have the option to go on forced leave or not. However, officials and employees with accumulated vacation leave of fifteen (15) days who availed of monetization for days under Section 22 hereof, shall still be required to go on forced leave.

13.2 COA Circular No. 2012-001 dated June 14, 2012 provides guidelines on the documentary requirements in case employees opt to monetize 50 per cent of their unused leave credits.

13.3 As a general rule, employees can only apply for the money value of their unused vacation leave credits for a maximum of 30 days in a given year. Provided, however that at least five days are retained after the monetization which correspond to the forced or mandatory leave pursuant to Section 25 of the said Omnibus Rule.

13.4 On the other hand, Section 23 is construed as an exception to the general rule under Section 22. It is an extraordinary measure to relieve an employee from financial difficulties that may be allowed only for valid and justifiable reasons subject to the discretion of SHFC's Management and availability of funds. Accordingly, for purposes of monetization, vacation leave credits must be exhausted before sick leave credits may be used, provided further it has valid and justifiable reasons and necessary documents are submitted to support the claim.

13.5 Review of documents of 50 out of 122 employees who have monetized 50 percent of their accumulated leave credits revealed that the monetization that were approved and paid are in excess of that allowed under the Omnibus Law as shown in the following sample computations:

Name of Employee	Available Leave Credits			Allowed per Year	Monetized Leave	Monetized Amount	No. of days in excess	Remarks
	VL	SL	Total					
VP1	170.750	115.250	286.000	30	275	1,719,300	245	-Monetized leave credits before retirement. -Available balance before retirement: VL-5; SL-5
CEO IV	14.831	16.625	31.456	0	20	87,433	20	Monetized more than ten days of VL
Acct. Specialist	36.125	12.125	48.250	30	38	96,909	8	Monetized more than ten days of VL
OIC-Dept. Manager	24.750	24.250	49.000	10	37	204,711	27	Monetized more than ten days of VL
OIC	22.104	16.604	38.708	10	27	105,228	17	Monetized more than ten days of VL

13.6 Review disclosed that the monetizations availed by personnel who exceeded the limitations of 50 per cent of their total unused leave credits were not supported with valid documents, such as medical records, statement of accounts of long outstanding bills, and other documents to support and justify the monetization of accumulated earned leave credits as required under the Omnibus Rules.

13.7 Further verification of the leave credits revealed that the five-day mandatory/ forced leave was not availed by employees with available leave credits of more than 15 days prior to the availment of the monetization, contrary to Section 25 of the Omnibus Law. Details of some sampled monetizations follow:

Employee	Leave Credits	Forced Leave	Monetized	Remarks
Supervising Acct. Specialist	121.5	none	100	-No forced leave deducted -No letter-request for disapproval of forced leave -Lacking documents to monetize 50% of SL & VL
Messenger	121.85	none	110	-No forced leave deducted -Lacking documents to monetize 50% of SL and VL

(Forward)

Employee	Leave Credits	Forced Leave	Monetized	Remarks
VP 2	205	none	60	-No forced leave deducted -No letter-request for disapproval of forced leave -Lacking documents to monetize 50% of SL and VL
VP 1	286	none	275	-No forced leave deducted -Request to monetize all leave credits before retirement
Project Evaluation Officer	123.5	none	110	-No forced leave deducted -No letter-request for disapproval of forced leave -Lacking documents to monetize 50% of SL and VL

13.8 The monetization of leave credits at more than the allowable 50 per cent of leave credits without the required supporting documents is contrary to Sections 22, 23 and 25 of the Omnibus Rules on Leave and COA Circular No. 2012-001. Moreover, non-deduction of the mandatory five-day forced leave prior to the grant of monetization casts doubt on the reliability of the employee leave records.

13.9 **We recommended that Management:**

a. **Ensure that the mandatory five-day forced leave is deducted prior to monetization of leave credits for employees with accumulated vacation leave balance of 15 days or more;**

b. **Require the employees who monetized 50 per cent or more of their leave credits to submit the necessary documents to support their claim in compliance with COA Circular No. 2012-001; and**

c. **Prospectively, ensure that monetization of accumulated earned leave credits by qualified employees is in accordance with the provisions of COA Circular No. 2012-001 and Sections 22, 23, and 25 of the Omnibus Rules on Leave.**

13.10 Management commented that five-day mandatory forced leave is being deducted on an annual basis, that is, if an employee has unused forced leave at the end of the year, it will be deducted to the leave credits of the employee prior to his/her availment of monetization of the following year. Also, it was mentioned that a memorandum was issued as support to the exemption of various personnel from the utilization of unused forced vacation leave due to exigency of service which is allowed under Section 25 (b) of the Omnibus Rules.

13.11 Further, Management explained that as part of compliance with Section 22 of the Omnibus Rules on Leave, the reasons/justifications of employees in availing 50 per cent or more of their unused leave credits are being indicated thru memos/request in line with SHFC's policy. At the same time, they will prospectively align said existing policy with the requirements specified under COA Circular No. 2012-001.

13.12 As an audit rejoinder, we stand by our recommendation that exemption from the mandatory forced leave be initiated by the concerned employee to be approved by the immediate supervisor. The exemption from forced leave defeats the purpose of providing the employee the opportunity to take paid time off from job responsibilities in order to maintain work efficiency and effectivity.

13.13 Moreover, the monetization of 50 per cent or more of accumulated vacation and sick leave should be properly supported with documentary requirements such as medical certificates, proof of indebtedness, etc. to ensure that the reasons indicated in the leave form request are valid and justifiable.

14. The actual amount utilized for the Loans Outlay amounting to P2.560 billion exceeded by P50.962 million or two per cent the CY 2019 DBM approved COB amounting to P2.509 billion, contrary to the provisions of Section 15 of Executive Order (EO) No. 518, series 1979, and Section 4(1) of PD No. 1445, thus, defeating the purpose of ensuring the proper allocation of funds and that the disbursements and/or accruals are within the authorized amounts.

14.1 EO No. 518, series of 1979 also known as the Government Corporate Budget EO of 1978, provides guidelines on the review and approval of the budgets of GOCCs. Section 15 of the Order states that:

> *Expenditure Authority. No government-owned or controlled corporations shall incur obligations or make payments for current operating or capital expenditures after the beginning of each calendar year without budget as approved under this Order.*

14.2 Section 4(1) of PD No. 1445 provides that:

> *Fundamental Principles – Financial transactions and operations of any government agency shall be governed by the fundamental principles set forth hereunder, to wit:*
>
> *(1) No money shall be paid out of any public treasury or depository except in pursuance of an appropriation law or other specific statutory authority*

14.3 Conditions set under the CY 2019 approved COB:

> a. *All expenditures, whether for current operating expenditures or Capital Outlays (COs) shall be made within the limits of available funds realized from corporate receipts, authorized borrowings and National Government budgetary support either in the form of subsidy, equity or loans outlay.*
>
> b. *Any increase in the approved principal COB in the course of the budget year, as may be warranted by additional corporate receipts, shall require the submission of a supplemental COB to cover the additional expenditures.*
>
> c. *Xxx*

14.4 Under existing government regulations, each GOCC, prior to the beginning of the fiscal year, shall prepare an operating budget consisting of estimated expenditures and borrowings which shall cover the current operating and capital expenditures to be approved by its BOD and recommended for submission to DBM for its review and approval. The DBM-approved COB serves as the authority to incur expenses and disburse funds within the appropriated amounts.

14.5 Of the total proposed COB amounting to P16.302 billion of SHFC for CY 2019, only P3.303 billion was approved by DBM. Comparison of the DBM approved COB against the actual utilization for the year revealed a net under-utilization of P28.386 million. The amount was net of the aggregate underutilization of Personnel Services (PS), Maintenance and Other Operating Expenses (MOOE) and Capital Outlay (CO) amounting to P79.348 million against the overutilization in Loans Outlay amounting to P50.962 million, details as follows:

Particulars	SHFC Proposed Budget a	DBM-Approved Budget b	Budget Utilization c	Variance Over/(Under) Utilization d=b-c
PS	315,451,000	307,678,565	288,102,496	(19,576,069)
MOOE	2,366,078,000	401,330,690	373,058,314	(28,272,376)
CO	165,229,000	84,308,111	52,808,925	(31,499,186)
Sub-total	**2,846,758,000**	**793,317,366**	**713,969,735**	**(79,347,631)**
Loans Outlay	13,455,261,000	2,509,340,182	2,560,301,960	50,961,778
Total	**16,302,019,000**	**3,302,657,548**	**3,274,271,695**	**(28,385,853)**

14.6 The SHFC's incurrence of overutilization of the Loans Outlay amounting to P50.962 million in CY 2019 is not in conformity with EO No. 518, PD No. 1445 and the conditions set in the approved COB.

14.7 Moreover, the existing implementing government rules and regulation described COB as the financial roadmap of operations to ensure that proper allocation of funds and the disbursements and/or accruals are within the authorized amounts. It is inherent, however, that there are instances that the approved budget is no longer sufficient to cover the necessary disbursements or, likewise approved supplemental budget shall serve as the authority for paying or incurring the same. Records, however, show that SHFC was not able to submit a supplemental budget and secure further approval from DBM.

14.8 Thus, the actual utilization amounting to P2.560 billion for the Loans Outlay exceeded by P50.962 million or two per cent the CY 2019 DBM approved COB amounting to P2.509 billion, contrary to the provisions of EO No. 518, series 1979 and Section 4.(1) of PD No. 1445, thus, defeating the purpose of ensuring the proper allocation of funds and that the disbursements and/or accruals are within the authorized amounts.

14.9 **We recommended that Management:**

a. **Explain the causes of the excess of the actual expenses over the budget for loans outlay to ensure that factors attributed to variances are considered in the future budget planning; and**

b. **Ensure that expenditures are incurred and paid within the limit provided under the DBM approved COB.**

14.10 Management explained that the Community Associations on High Density Housing Projects (CAs – HDHP) only submitted their applications in the last quarter of CY 2019. Lots chosen by the CAs have to be acquired by SHFC in advance after encountering issues with the resettlement sites. In the case of People's Plan Ville HOA with 200 ISFs, their choice of property is in Pureza St. which is owned by the GSIS and Kamaynila HOA for the 894 ISFs and Gulayan Pilapil for the 440 ISFs which are owned by the BSP. These properties need to be acquired before the expiration of the SARO. In addition, these projects were already accounted for when SHFC proposed a budget for Loans Outlay of P13.455 billion but the DBM only approved P2.509 billion.

14.11 As audit rejoinder, we stand by our recommendation that Management incur expenditures only up to the extent of the DBM approved budget.

15. Remittance of Dividends to the National Government

a. **Dividends remitted to the National Government (NG), through the Bureau of the Treasury (BTr) were not computed in accordance with the provisions of RA No. 7656 and its Revised Implementing Rules and Regulations (RIRR) dated August 5, 1998 and January 26, 2016, resulting in under-remittance of dividends amounting to P13.607 million for CYs 2014 to 2018.**

15.1 RA No. 7656, or the Government-Owned or Controlled Corporations (GOCC) Dividend Law, requiring GOCCs to declare dividends under certain conditions to the National Government and for other purposes as approved on November 9, 1993, provides:

> *SEC.3. Dividends. - All government-owned or -controlled corporations shall declare and remit at least fifty percent (50%) of their annual net earnings as cash, stock or property dividends to the National Government.*

15.2 The Act discusses the definitive purpose of the State to declare a policy for the NG to realize additional revenues from GOCCs, without impairing their viability and the purposes for which they have been established, shall share a substantial amount of their net earnings to the NG.

15.3 The Revised IRR (RIRR) was issued effective January 26, 2016 to amend the IRR issued on August 5, 1998. It simplifies the assessment of dividends through the use of the Corporate Income Tax Returns duly filed with the BIR or authorized agent banks as the basis for dividend computation. It also emphasizes more transparent computations and the efficient administration of dividend assessments by removing book earnings that have no effect on cash balances.

15.4 Salient features of the Act, are summarized as follows:

R.A./IRR	Applicable Years	Dividend Base	Mode/Schedule of Remittance
RA No. 7656 approved on November 9, 1993	1993-1997	Net Earnings*	At least 50% of their annual net earnings as cash, stock or property dividends.
IRR of RA No. 7656 dated August 5, 1998	1998-2015	Net Earnings*	At least 50% of their annual net earnings as cash, stock or property dividends; shall remit to the Bureau of Treasury (BTr) at least fifty percent (50%) of the dividend due on or before April 30 following the dividend year, based on the financial statements submitted to Commission on Audit (COA) for audit. The balance thereof shall be computed based on the COA audited net income and shall be remitted to the BTr within seven (7) working days after receipt of the COA Annual Audit Report for the dividend year.
Revised IRR of RA No. 7656 dated January 26, 2016 (Forward)	2016-present	Net Earnings** Shall include: (i) Income subject to income tax, as provided in the Annual Income Tax Return[2]; net of tax; (ii) Income subject to final tax, as provided in the Annual Income Tax Return Schedule on Supplemental Information[3], net of tax; and (iii) Income exempt from tax, as provided in the Annual Income Tax Return Schedule on Gross Income/Receipts Exempt from Income Tax[4], net of tax Provided, further that: 1. Net earnings shall not include program subsidies and subsidies granted to	On or before 15 May of each year, at least fifty (50%) of their Net Earnings as Cash, Stock and/or Property Dividends to the National Government. Simultaneous with the payment of the Dividends to the BTr, the GOCC shall send the DOF: (i) schedule showing the computation of Dividends due (copy furnish BTr); (ii) copy of its Annual Income Tax Return, duly received by the BIR or authorized agent banks, for the relevant Dividend Year; (iii) Financial Statements for the relevant Dividend Year duly received by the BIR or authorized agent bank; and (iv) schedules on program

[2] BIR Form No. 1702 as of June 2013. Part IV – Computation of Tax for BIR Form No. 1702-RT; Schedule 1 – Computation of Tax per Tax Regime for BIR Form No. 1702-MX; Part IV – Computation of Tax for BIR Form No. 1702-EX.

[3] BIR Form No. 1702 as of June 2013. Schedule 12 for BIR Form No. 1702-RT; Schedule 13 for BIR Form No. 1702-MX; Schedule 9 for BIR Form No. 1702-EX.

[4] BIR Form No. 1702 as of June 2013. Schedule 13 for BIR Form No. 1702-RT; Schedule 14 for BIR Form No. 1702-MX; Schedule 10 for BIR Form No. 1702-EX.

R.A./IRR	Applicable Years	Dividend Base	Mode/Schedule of Remittance
		settle tax obligations for prior years if included in the income statement as revenues, and actual disbursements of program subsidies treated as expenses. In case of operating subsidies, these shall be considered part of revenues; 2. Net earnings shall not include dividend income remitted directly to the National Government in compliance with Section 5(h) of these Rules; and, 3. This definition of Net Earnings shall likewise apply to GOCCs that are exempted from income tax.	subsidies and subsidies granted to settle tax obligations for prior year/s treated as revenues, and actual disbursements of program subsidies treated as expenses. The schedules should be signed by the GOCC's chief executive officer.

* Net Earnings – shall mean income derived from whatever source, whether exempt or subject to tax, net of deductions allowed under Section 29 of National Internal Revenue Code (NIRC), as amended, and income tax and other taxes paid thereon, but in no case shall in any reserve for whatever purpose be allowed as deduction from net earnings.

** Same definition with the previous IRR except Section 29, now Section 34, of the amended NIRC under Presidential Decree No. 1158 and Republic Act No. 8424 (Tax Reform Act of 1997).

15.5 The format in the computation of dividends as provided in the IRR of 1998 and RIRR of 2016 are presented below:

IRR (1998):

A. First Payment*

Net Income After Tax (Based on report submitted to COA)			xxx
Add:	Allowance for Bad Debts	xxx	
	Other Types of Provisionary Expenses	xxx	
	Other Deductions Not Allowable Under Section 29 of the National Internal Revenue Code (NIRC)	xxx	xxx
			xxx
Less:	Bad Debts Written-Off	xxx	
	Other Types of Actual Losses for the Year	xxx	xxx
Dividend Base			xxx
Multiplied by the Dividend Rate			xx%
Dividend Payable			xxx
Multiplied by 50%			50%
Dividend Due on or before April 30			**xxx**

B. Second Payment**

Dividend Payable (To be recomputed following 1st payment method based on COA Audit Report)	xxx
Less: 1st Payment Made	xxx
Balance of Dividend Due	xxx

* To be made on or before April 30 following the dividend year.

**To be made within 7 working days upon receipt of COA Audit Report.

<u>RIRR (2016):</u>

Net Taxable Income-Regular	xxx
Less: Income Tax Due	30%
Net Taxable Income-Regular, net of tax	xxx
Income Subject to Final Tax	xxx
Less: Final Tax	xxx
Income Subject to Final Tax, net of tax	xxx
Net Taxable Income-Regular, net of tax	xxx
Income Subject to Final Tax, net of tax	xxx
Total	xxx
x	50%
Dividends Due	**xxx**

15.6 On February 04, 2020, the Team sought clarifications, through personal interview with a representative from the Department of Finance - Corporate Affairs Group (DOF-CAG) regarding the provisions of RA No. 7656 and its RIRRs of CYs 1998 and 2016.

15.7 The DOF-CAG representative clarified that the dividend base shall be computed using the Net Earnings presented in the current year audited financial statements (AFS) before any prior year adjustments. She acknowledged, though, that the restated amount is the true representation of the GOCC's Net Earnings, however, using the restated amount will only raise confusion among GOCCs which may result in possible adjustments in the prior year remittances. Moreover, the RIRRs of 1998 and 2016 only mentioned the simple and plain meaning of the Net Earnings defined in the said Act without mention of restatements in the FS. Thus, dividend shall be computed based on the Net Earnings of the current year financial statements before any prior year adjustments.

15.8 It was observed, however, that SHFC used the restated amount of Net Earnings as dividend base for CY 2016 as presented in the CY 2017 AFS. The restated amount was used in the computation of annual income tax due as reflected in the original ITRs filed with the BIR for CY 2016. Since the 2016 RIRR simplifies the assessment of dividend through the use of ITR filed with the BIR, we see no impact on the dividend remittance of SHFC for the said year.

15.9 On the other hand, the DOF-CAG representative mentioned that the expense must adhere to the criteria of allowable deductions under Section 34 of the Tax Code, and likewise the Team re-evaluated the dividend base of SHFC for the covered audit period with available filed Annual Income Tax Returns (ITRs) from CYs 2014 to 2018.

15.10 Re-validation disclosed that SHFC claimed in full the interest expense incurred for CYs 2014 to 2018 as deductions from its dividend base, contrary to Section 34(B) of the Tax Code, as amended, to wit:

*Xxx **(B) Interest.** –*

*(1) **In General.** - The amount of interest paid or incurred within a taxable year on indebtedness in connection with the taxpayer's profession, trade or business shall be allowed as deduction from gross income: Provided, however, That the taxpayer's otherwise allowable deduction for interest expense shall be reduced by forty-two percent (42%) of the interest income subjected to final tax: Provided, That effective January 1, 2009, the percentage shall be thirty-three percent (33%).Xxx (emphasis supplied)*

15.11 Accordingly, the Corporation did not recognize interest arbitrage computed based on the interest income subjected to final tax as indicated in its annual ITRs filed with the BIR as detailed below:

Dividend Year	Interest Income Subject to Final Tax	Rate	Interest Expense Arbitrage	Actual Interest Expense Reported in the ITR	Addition to Dividend Base
2014	37,687,822	33%	12,436,981	5,894,099	5,894,099
2015	63,663,955	33%	21,009,105	6,446,182	6,446,182
2016	74,557,098	33%	24,603,842	5,692,940	5,692,940
2017	91,741,977	33%	30,274,852	5,264,149	5,264,149
2018	146,149,076	33%	48,229,195	3,916,860	3,916,860
	413,799,928		**136,553,975**	**27,214,230**	**27,214,230**

15.12 Although the Tax Code provides that interest expense shall be reduced by 33 per cent of the interest income subject to final tax, the non-deductible portion is up to the extent of actual expense only, otherwise, the excess will be prejudicial to the taxpayer. Hence, the addition to the dividend base amounting to P27.214 million which is considered a non-deductible reconciling item has resulted in the under-remittance of dividends amounting to P13.607 million, or 50 per cent, as re-computed below:

	2014	2015	2016	2017	2018
Net Income After Tax (Based on COA Audited FS)	116,422,903	132,170,103	152,788,401	210,556,368	177,927,683
Add/(Deduct) Reconciling Items:					
1. Loan Reserve	3,013,882	5,154,022	4,363,332	5,021,705	1,609,912
2.Non-deductible interest expense	5,894,099	6,446,182	5,692,940	5,264,149	3,916,860
3.Deferred Income Tax Expenses	0	0	(1,309,000)	(1,506,512)	(482,974)

(Forward)

	2014	2015	2016	2017	2018
4.Actual Disbursements of Program Subsidies Treated as Expenses	0	0	13,583,307	12,834,215	12,866,631
Dividend Base	125,330,884	143,770,307	175,118,980	232,169,925	195,838,112
Dividend Rate	50%	50%	50%	50%	50%
Dividends due to NG per re-computation	62,665,442	71,885,153	87,559,490	116,084,962	97,919,056
Dividend paid to NG – per SHFC computation	59,718,343	68,662,063	84,713,020	113,452,888	95,960,626
Under-Remittance	**(2,947,099)**	**(3,223,090)**	**(2,846,470)**	**(2,632,074)**	**(1,958,430)**
Total Under-remittance					**13,607,163**

15.13 Dividends remitted to the NG through the BTr have not been computed in accordance with the provisions of RA No. 7656 and its RIRRs, resulting in under-remittance amounting to P13.607 million, depriving the NG of the additional revenues and of improving its cash management.

15.14 **We recommended that Management:**

a. **Compute dividends due the NG strictly in accordance with RA No. 7656 and its RIRR;**

b. **Review the allowable expenses deducted against Net Earnings, in accordance with Section 34 of the Tax Code, as amended, pursuant to the RIRR since this has significant impact on dividends and tax remittances to DOF and BIR, respectively; and**

c. **Communicate and seek clarification with the DOF-CAG the under-remittance of dividends as a result of recomputation in audit based on Section 11 of the CY 2016 RIRR.**

15.15 Management commented that the interest expense was incurred in relation to an acquired asset of SHFC used in its trade or business under a finance lease agreement and therefore, shall be allowed as deduction from gross income as expressly provided under Section 34(B)(3), to wit:

> *(B) (Interest) –*
> *Xxx*
> *(3) Optional Treatment of Interest Expense – At the option of the taxpayer, **interest incurred to acquire property used in trade business or exercise of a profession may be allowed as deduction** or treated as a capital expenditure (Emphasis supplied)*

15.16 Also, the Management mentioned the case of Philippine Foods Properties Inc. vs. Commissioner of Internal Revenue, the Court of Tax Appeals (CTA) reiterated the application of Interest Expense as an allowable deduction, to wit:

(e) *Optional Treatment of interest expense on capital expenditure – At the option of the taxpayer,* ***interest expense on a capital expenditure incurred to acquire property used in trade,*** *business, or exercise of a profession may be allowed* ***as deduction in full*** *in the year when incurred (Emphasis supplied)*

15.17 As audit rejoinder, we emphasize that the optional treatment of interest expense on capital expenditure is constructed simply so that the taxpayer may claim it either as an outright expense, or as a capitalized cost of the acquired assets for purposes of periodic depreciation which the taxpayer is allowed to claim as deduction.

15.18 Provided, however, that interest claimed as an outright expense should still observe the tax arbitrage computed at 33 per cent of interest income subject to final tax.

b. Dividends were not remitted to the NG within the period prescribed under the RIRRs, resulting in possible penalty charges equivalent to the prevailing 364-day regular Treasury Bill rate plus five per cent on the outstanding dividends due, which may cause incurrence of unnecessary expenses.

15.19 Section 9(a) on the Responsibility, Sanctions and Penalty of the RIRR provides that:

The Bureau of the Treasury (BTr), in coordination with Department of Finance (DOF), shall assess the GOCC a penalty charge for late payment equivalent to the prevailing 364-day regular Treasury bill rate plus five percent (5%) on the Dividend due. Xxx

15.20 Review of available documents disclosed instances of delay in the remittance of dividend to the BTr, to wit:

Dividend Year	Dividends Paid	Date of Remittance	Prescribed Deadline	No. of Days Delayed	Status
2014	59,718,343	04/14/2015	04/30/2015	0	On-time
2015	68,662,063	04/04/2016	04/30/2016	0	On-time
2016	84,713,020	05/12/2017	05/15/2017	0	On-time
2017	113,452,888	06/29/2018	05/15/2018	45	Late Remittance
2018	95,960,626	05/08/2019	05/15/2019	0	On-time
	422,506,940				

15.21 Dividends not remitted to the NG within the prescribed period is contrary to the pertinent provisions of RA No. 7656 and its RIRRs and results in penalty charges considered as unnecessary expenses.

15.22 **We recommended and Management agreed to strictly monitor and comply with the timely remittance of dividends to the NG as prescribed in the RIRR of RA No. 7656 to avoid penalty charges and unnecessary expenses.**

15.23 Management commented that the reckoning point should be from the date of receipt by the Corporate Secretary of the Annual Audit Report (AAR), from which the delay will be computed, and not from the prescribed deadline. They further stressed that there were no actual penalties imposed by DOF on the late remittances from previous years.

15.24 Management also conformed with the audit recommendation to prospectively ensure compliance on the timely remittance dividend in order to avoid penalty charges.

15.25 As an audit rejoinder, we reiterate Section 7 on the Mode of Remittance of the 1998 RIRR which explicitly states that the GOCC shall declare and remit dividends of at least 50 per cent of dividend due on or before April 30 and the balance thereof shall be remitted within seven working days after the receipt of COA AAR for the dividend year. Accordingly, the law enforces that there shall be an initial remittance of dividends to be made on or before April 30 from which SHFC failed to comply.

16. SHFC was able to attribute and utilize P1.889 billion, or 75 per cent of its CY 2019 Gender and Development (GAD) Budget of P2.517 billion which is 76 per cent of its DBM approved COB amounting to P3.303 billion, in compliance with the Joint Circular No. 2012-01 of Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and DBM, making SHFC a gender-responsive agency.

16.1 Joint Circular No. 2012-01 issued by the PCW, NEDA and DBM prescribes the guidelines and procedures for the formulation, development, submission, implementation, monitoring and evaluation including accounting of results of agency annual GAD plans and budgets (GPBs), and GAD accomplishment reports (AR).

16.2 Paragraph 6.1 on Costing and Allocation of the GAD budget of the above Circular, states that:

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

16.3 On the other hand, Paragraph 6.4 of the same Circular on attributing agency major programs to the GAD budget states that:

> *Attribution to the GAD budget of a portion or the whole of the budget of an agency's major programs is a means toward gradually increasing the gender responsiveness of government programs and budgets.*

16.4 Further Paragraph 5.3 of the same Circular states that:

> *Agencies are encouraged to assess the gender-responsiveness of their major programs and projects using the HGDG tool. The result of assessment will guide them in identifying areas for improvement.*

16.5 Verification of documents disclosed that SHFC submitted on May 30, 2018 its GPB to PCW for its review and endorsed on October 10, 2018 to DBM for its approval. Using the HGDG tool, SHFC's GAD Focal Point System Committee attributed its major programs in the presence of a representative from National GAD Resource Pool accredited by PCW. SHFC got a score of 18 out of a perfect score of 20 which means that the programs attributed are gender-responsive.

16.6 Verification of the Annual Accomplishment Report disclosed that for CY 2019, SHFC was able to utilize P3.823 million for its client-focused activities and P3.037 million for its organization-focused activities, or a total of P6.860 million, or 89 per cent of its GAD Plans and Budget of P7.716 million. On the other hand, attributions for SHFC's programs amounted to P1.882 billion or 75 per cent of its DBM-approved Loans Outlay of P2.509 billion. Details follow:

Programs/Project/Activities	GAD Budget	Utilization/ Attribution	Percentage
Client-Focused			
TAO Lecture Series: Gender Perspectives in Spatial Planning and Design	400,000	29,519	
Financial Literacy Seminar and Workshop for SHFC Employees Batch 1 and 2	2,185,0000	1,886,332	
Medical Mission and Seminar on Cervical Cancer Awareness in Zamboanga	550,000	263,452	
Basic Teacher Training and Villarosa Daycare Upgrading	1,235,000	243,933	
Gender Sensitivity Training	684,000	1,400,149	
	5,054,000	**3,823,385**	
Organization-focused			
• Women's Month and CMP Month IEC Materials	200,000	355,232	
• Women's Month Celebration (kickoff)	300,000	449,999	
• Men Opposed to VAW Everywhere Training-Workshop	172,144	103,018	
• Training/Seminar on Violence against Women and Children	510,000	233,752	
• GADTIMPALA validation for Gender Responsive Agency	510,000	1,244,169	
• GAD 2020 Planning Budgeting and Orientation on HGDG			
• GAD Planning and Budgeting Workshop			
• GAD Agenda Write-shop			

(Forward)

Programs/Project/Activities	GAD Budget	Utilization/ Attribution	Percentage
• Gender Sensitivity Training for Employees	440,000	445,369	
• Anti-Violence Against Women and Children (VAWC) in Dapitan City	530,000	205,037	
	2,662,144	**3,036,576**	
	7,716,144	**6,859,961**	**88.90**
Attributions - Programs assessed using HGDG Tool (Loans Outlay based on DBM-approved COB)	**2,509,340,000**	**1,882,005,000**	**75.00**
	2,517,056,144	**1,888,864,961**	**75.04**

16.7 It may be noted that the SHFC did not limit itself with the minimum five per cent allocation of the its budget based on Joint Circular No. 2012-01 in the implementation of its GAD-related programs, projects and activities, but instead, attributed and utilized 75 percent of its GPB which is 76 per cent of its DBM-approved COB.

16.8 On August 14, 2019, the 10th Anniversary of the Magna Carta of Women, SHFC received a citation from by the PCW for their CMP Programs on Gender and Development Transformation and Institutionalization through Mainstreaming of Programs, Agenda, Linkages and Advocacies (GAD timpala). This is in recognition of SHFC's efforts in pursuing gender equality and women empowerment for its clientele through its programs.

16.9 The implementation of GAD programs, projects and activities that are focused to the benefit of its clients and to the organization in conformity with its mandate makes SHFC a gender-responsive agency.

16.10 **We commended Management for being GAD-responsive and for the continuous implementation of its GAD-related activities, including attributions of its projects and programs that are beneficial to its clients and to the Corporation.**

16.11 Management assured that SHFC will continue to implement its GAD activities, including the attributions to its programs and projects that are beneficial to its clients and the Corporation.

17. Funds amounting to P315.630 million remain idle since CY 2010 with no utilization, except for administrative expenses, resulting in the non-attainment of the objectives for which the Abot-Kaya Pabahay Fund (AKPF) was created, specifically the amortization support and developmental financing component, pursuant to RA No. 6846, as amended, defeating the goal of the National Government (NG) program in addressing the urgency of the housing need that caters to low-income bracket families.

17.1 The AKPF was created under RA No. 6846 on January 24, 1990, otherwise known as the Social Housing Support Fund Act, in order to promote the national shelter program and to implement a continuing program of social housing that shall make available to low income families, affordable houses and/or lots equitably distributed in the 14 regions of the country by establishing a finance support system that shall encourage active participation of a private sector.

17.2 In order to carry out the purpose, the AKPF was created with an amount of P2.500 billion to be constituted over a period of five years through a continuing yearly appropriation of P500 million from the NG. The Fund shall be used exclusively for the objectives of enhancing affordability of low-cost housing by low-income families, providing developmental financing for low-cost housing projects, and eliminating risks for the funding agencies involved in housing namely the SSS, the GSIS and the Home Development Mutual Fund (HDMF).

17.3 Under RA No. 7835 dated December 16, 1994, also known as the Comprehensive and Integrated Shelter Financing Act or CISFA, the objectives are as follows:

a. Ensure continuous funding support to vigorously implement the government's program for urban and rural housing, resettlement and development of sites and services, and the renewal of blighted areas;
b. Enhance the capability of low-income groups to acquire a decent and low cost housing through the introduction of support mechanism and facilities which shall render affordable housing acquisitions;
c. Xxx;
d. Increase the public and private sector's participation in the investment of their funds into the mainstream of housing finance for developmental and end-user financing requirements of the National Shelter Program;
e. Xxx;
f. Xxx;
g. Serve the housing requirements of all underprivileged and those gainfully employed but are not members of the GSIS, SSS and Pag-IBIG Fund; and
h. Xxx.

17.4 The Fund has three financial systems or components as follows:

a. Liquidity support and interest subsidy component (LSISC) by NHMFC. The Fund aims to enhance affordability of low-cost housing by low income families by means of subsidized monthly amortization for five years. The aforesaid amortization support shall apply only to loans granted from the approval of RA No. 7835 to five years thereafter on a first-come-first-served basis to eligible borrowers.

b. Amortization Support and Developmental Financing Component (ASDFC) being handled by the SHFC (transferred from NHMFC), a subsidiary of the NHMFC. The Fund extends developmental financing loans up to 80 per cent of the total project cost to the proponents of low cost housing projects and to help low income homebuyers to buy their own housing units by way of availing themselves of amortization support during the first five years of their housing loans.

c. Cash Flow Guaranty (CFG) being handled by the Home Guaranty Corporation (HGC), now the Philippine Guarantee Corporation

(PhilGuarantee). The Fund ensures a viable cash flow for funding agencies involved in housing in the face of liquidity risks resulting from non-collection of loans.

17.5 The first two components, representing 60 per cent of the fund are administered by the NHMFC while the CFG, or 40 per cent, is administered by HGC, now PhilGuarantee.

17.6 NHMFC Corporate Circular No. AKPF-001, as amended by AKPF-007, states:

The Amortization Support Fund, second component which was handled by NHMFC then transferred to SHFC, is to help low income homebuyers to buy their own housing units by way of availing themselves of amortization support during the first five years of their housing loans under the AKPF. And this applies to housing loan mortgages granted from January 28, 1990 and shall cover housing loans not exceeding P100,000 per unit as long as the Fund exists provided the loan has a maturity of 15 years with a fixed interest rate within the range of nine to 12 percent per annum.

The extent and Period of Support to be granted to eligible borrowers is as follows:

Level A – family gross income not exceeding P8,000 per month who shall be granted a loan of P80,000

Amortization Period	***Amortization Support***
Months 1 to 12	*35% of Monthly Amortization*
Months 13-24	*30% of Monthly Amortization*
Months 25 to 36	*25% of Monthly Amortization*
Months 37-48	*20% of Monthly Amortization*
Months 49-60	*14% of Monthly Amortization*

Level B – family gross income not exceeding P10,000 per month who shall be granted a loan of P80,000 but not over P100,000

Amortization Period	***Amortization Support***
Months 1 to 24	*25% of Monthly Amortization*
Months 25 to 36	*20% of Monthly Amortization*
Months 37-48	*14% of Monthly Amortization*
Months 49-60	*7% of Monthly Amortization*

17.7 NHMFC Corporate Circular No. AKPF-002, as amended by SHFC Corporate Circular AKPF No. 13-001, on the Developmental Financing Program states:

The Developmental Financing Program (DFP) as part of 2nd component is provided to proponents/developers of low cost housing projects with a selling price of not more than P60,000 per house and lot package and P45,000 per lot package. The NHMFC shall administer direct lending to the government entities and those *as otherwise classified. It will also wholesale funds to interested government and private financing institution who in turn will directly lend to the private proponents. The developmental loan serves as seed capital for the development of property and construction of housing units.*

The purpose of the DFP are as follows:

a. *Site upgrading/development and housing construction to eligible Community Mortgage Program (CMP) projects as compliance to balance housing requirements under Section 18 of RA 7279;*
b. *LGU sponsored housing projects where end-user financing shall be provided either through CMP/Localized CMP or High Density Housing (HDH) Program;*
c. *Site development and/or construction of high density housing units for the HDH Program; and*

d. *Small scale inner city housing projects providing house and lot packages for socialized housing borrowers with assured end-user financing either through CMP/LCMP or the HDH program, Banks ROPOA, foreclosed/idle properties of pension fund like SSS, GSIS as well as those of other institutions provided there is an end-user financing through the afore-cited facilities.*

Maximum loanable amount shall be P15 million for projects covered by CMP and LCMP and P75 million for projects under HDH Program which shall have a maximum term of 36 months after each drawdown but shall have earlier maturity based on project feasibility and the availability of the take-out window.

Loan repayment

Payment of principal shall be made quarterly with the first payment due on or before the end of eighteen (18th) month from date of initial loan release which shall be covered by post-dated checks to be issued in advance by the developer or upon take out by the end user financing window whichever comes first.

17.8 The following schedule shows the Allotment and Utilization of Funds:

Year	APPROPRIATION (in million) Amortization Support	Developmental Loan	Total	RELEASES (in million) Amortization Support	Developmental Loan	Total
1991	200.00	100.00	300.00	159.17	79.58	238.75
1992	200.00	100.00	300.00	24.00	12.00	36.00
1993	200.00	100.00	300.00	40.16	20.09	60.25
1994	133.33	66.67	200.00	156.67	78.33	235.00
1995	200.00	200.00	400.00	194.88	97.43	292.31
1996	0	0	0	185.13	92.56	277.69
	933.33	**566.67**	**1,500.00**	**760.01**	**379.99**	**1,140.00**

17.9 The difference of P360 million between the total amounts appropriated and released would account for the unreleased funds from what was appropriated by DBM from 1991 to 1996 amounting to P300 million and P60 million for the five percent mandatory reserve requirement.

17.10 Total funds of the AKPF as at December 31, 2019 amounted to P2.531 billion, with the following details, in million:

Particulars	Amortization Support	Developmental Loan	Total
Total Fund Released to NHMFC-AKPF	760.01	379.99	1,140.00
Add: Net Interest and Penalty Income (from developmental loans and investments)	812.54	439.29	1,251.83
Developmental Loan Repayments		58.95	58.95
Sale of Acquired Assets		80.39	80.39
	812.54	578.63	1,391.17
	1,572.55	**958.62**	**2,531.17**

17.11 The fund utilization of the AKPF as at December 31, 2019 is accounted for as follows:

Particulars	Utilization (in million)		
	Amortization Support	Developmental Loan	Total
Total Funds of the AKPF	1,572.55	958.62	2,531.17
Less: Utilization			
Amortization Support – Levels A and B	42.26		42.26
Developmental Loans Accounts Receivable (24 projects - 11,170 beneficiaries)		389.91	389.91
CMP Interest Subsidy	111.70	77.62	189.32
Administrative and operating expenses and capital outlay as at 12/31/2019	108.12	49.84	157.96
Litigation Expenses of dacion/foreclosed properties		12.57	12.57
Payment of Real Property Tax of dacion/foreclosed properties		11.66	11.66
Transfer related expenses		11.86	11.86
	262.08	553.46	815.54
Total	1,310.47	405.16	1,715.63
Less: Realigned Funds			
Realigned Amortization Support Fund to CMP per NHMFC Board Resol. #3150 and 3163, series of 2001.	(900.00)	-	(900.00)
Realigned Funds to Liquidity Support per NHMFC Board Resolution No. 3354, Series of 2005 dated Jan. 06, 2005	(360.00)	(140.00)	(500.00)
Fund Balance Available for Utilization	**50.47**	**265.16**	**315.63**

17.12 EO No. 272 dated January 20, 2004 mandated NHMFC to organize and establish the SHFC as a NHMFC wholly-owned subsidiary. SHFC was formed in accordance with the Corporate Code and the pertinent rules and regulations issued by the Securities and Exchange Commission (SEC). In October 2005, a Trust Agreement was entered into by the NHMFC (Trustor) and SHFC (Trustee) with SHFC's sole purpose of performing the powers and functions with respect to the administration, management, development and implementation of the CMP and AKPF.

17.13 The Amortization Support and Developmental Financing Component (ASDFC) was transferred by NHMFC to SHFC thru Trust Agreement wherein the Trustor (NHMFC) entrusts, assigns, transfers and delivers unto the Trustee (SHFC), the outstanding balance of the AKPF Funds in the total amount of P601.164 billion. Cash and Cash in Bank balance as at December 31, 2019 amounted to P315.63 million, or an increase of P124.89 million from the time the Fund was transferred by NHMFC to SHFC. The increase was due to collections of developmental loan repayments, interest earned from the developmental loan and sale of acquired assets.

17.14 The following shows the movement of the AKPF from the time it was transferred to SHFC up to December 31, 2019 under the Trust Agreement:

	Amount in millions
Cash -in-Bank – LBP 1	0.74
Cash-in-Bank – LBP 2	3.35
Investment in Special Savings Deposit	19.06
Investment in Government Securities	167.59
Cash and Cash Equivalents – Beginning	190.74
Add:	
Interest Income	155.04
Developmental Loan Repayments	20.34
Sale of Acquired Assets	80.39
Total	446.51
Less:	
Developmental Loan Payments	15.00
Amortization Support	0.21
Litigation Expenses	9.00
Payment of Real Property Taxes	11.13
Transfer Related Expenses	11.86
Operating Expenses	83.68
Total	130.88
Cash and Cash Equivalents - December 31, 2019	**315.63**

17.15 On the other hand, financing loans were extended to the developers of the following projects:

	Project	Location	Approved Loan	Date of Approval	Released Loan	Remarks
1	Project Exodus	Angono, Rizal	27,630,000	12/1991	14,010,000	Fully Paid thru Unified Home Lending Program (UHLP) take outs
2	Overland Subdivision	Bagac, Bataan	4,200,000	12/1992	4,200,000	Fully Paid thru UHLP take outs

(Forward)

	Project	Location	Approved Loan	Date of Approval	Released Loan	Remarks
3	Carmenville PTF	Malaybalay, Bukidnon	24,000,000	12/2003	24,000,000	Fully Paid thru UHLP take outs
4	Munsayac Subdivision	Antonio Isabela	15,000,000	9/1996	15,000,000	Disposed and Sold Dacion en Pago Sold by SHFC to Munsayac Subd in the amount of P20 million per CTS dated Nov. 11, 2009
5	Villa Aguilla Subd	Maliwalo, Tarlac	25,000,000	12/1996	25,000,000	Disposed and Sold Dacion en Pago Sold by SHFC thru CTS to Brakass Property Development for P27.327 million March 11, 2014
6	Villa Victoria Subdivision	Victoria Tarlac	22,300,000	4/1997	18,800,000	Disposed and Sold Dacion en Pago SHFC sold to Brakass Property Development under CTS for P16 million on September 28, 2012
7	Kabahay Guro Village	San Jose Del Monte Bulacan	13,500,000	11/1996	13,500,000	Disposed and Sold Dacion en Pago. Sold for P14,278,500 by SHFC to Servequest per CTS dated July 27, 2010
8	Villa Felipe Heights	Guimba, Nueva Ecija	15,000,000	5/1997	12,400,000	Investment Property. Sold by SHFC to RA De Leon Appraisal and Realty Services in the amount of P15 million dated March 3, 2012. The sale did not materialize
9	Malinoville Subd	San Fernando Pampanga	25,000,000	11/1997	25,000,000	Investment Property Sold by SHFC to Soninsa Realty Brokerage Services under CTS dated October 24, 2012 in the amount of P26 million. The Sale did not materialize
10	Juel Country Homes	Bambang, Nueva Viscaya	13,000,000	2/1997	13,000,000	Investment Property. On-going transfer of TCTs in the name of SHFC
11	Olympia Village	Palayan, Nueva Ecija	6,000,000	3/1997	3,000,000	Investment Property Dacion en Pago. On-going transfer of TCTs in the name of SHFC
12	UPLB ONAPUP Village	Bay, Laguna	11,000,000	12/1997	9,000,000	Investment Property. Dacion en Pago. On-going transfer of TCTs in the name of SHFC

(Forward)

	Project	Location	Approved Loan	Date of Approval	Released Loan	Remarks
13	Cristina Homes I Subd	Cabanatuan City	5,500,000	5/1997	5,500,000	Investment Property Foreclosed. Transferred in the name of SHFC
14	Catbalogan Citihomes	Catbalogan Samar	26,000,000	11/1997	23,000,000	Investment Property Foreclosed. Transferred in the name of SHFC
15	La Vista Cruz Subd	San Rafael Tarlac	26,000,000	5/1997	26,000,000	Investment Property Foreclosed. With on-going case
16	Cristina Homes II Sub	Cabanatuan City	18,000,000	3/2003	18,000,000	Investment Property Foreclosed on going transfer in the name of SHFC
17	Villa Rita Subd	Bayombong Nueva Ecija	15,000,000	11/1997	15,000,000	Investment Property Foreclosed
18	Plainville Homes	Daet, Camarines Norte	10,000,000	12/2006	5,000,000	Investment Property Foreclosed On-going transfer in the name of SHFC Last drawdown paid by SHFC Sept. 25, 2007
19	Villa Haniya	Malabang, Lanao del Sur	9,000,000	10/1996	9,000,000	Investment Property Foreclosed
20	Evergreen Subd	Dinalupihan, Bataan	9,000,000	5/1997	6,000,000	Investment Property Foreclosed
21	Rivera Heights Subdivision	Mariveles Bataan	27,500,000	11/1997	22,000,000	Long term Receivable Garnished by the LGU due to non-payment of tax
22	Villa Alejandrea Subdivision	Cauayan Isabela	38,000,000	11/1997	30,500,000	Long-term Receivable Items in Litigation. With Missing Titles
23	Palao Country Homes	Mariveles Bataan	40,000,000	11/1997	40,000,000	Long term Receivable Items in Litigation. Awaiting the resolution of the case filed by GNP Construction prior to foreclosure
24	Corryville Housing Project	Eureka St Makati	13,000,000	12/1991	13,000,000	Past due accounts Missing 32 TCTs
					389,910,000	

17.16 Out of the 24 projects approved by NHMFC through AKPF Developmental Financing, only three had been fully paid thru UHLP loan take outs. Other projects were already foreclosed, dacioned and sold by and in the process of transferring the TCTs in the name of SHFC.

17.17 As can be gleaned from the above table, the last project, Plainville Homes, was approved by SHFC in CY 2006. The P5.000 million drawdowns were released in CY 2007. For the Palao Country Homes, the loan was approved and the first drawdown amounting to P20 million was released by NHMFC while the remaining 2nd - 5th drawdowns totaling P20.000 million, broken down to P9.000 million in 2006, P5.000 million in 2007, and P6.000 million in 2010 were released by SHFC.

17.18 The Villa Alejandrea Subdivision project under the account Long-term Receivable is under the Items in Litigation account due to missing TCTs. On the other hand, the Rivera Heights Subdivision was garnished by the LGU of Bataan due to non-payment of realty tax and the presence of third-party claimant which is the Authority of Freeport Area of Bataan (AFAB). The TCTs are already in the name of Bataan LGU.

17.19 Further analysis disclosed that the following seven projects had no single amortization payment from the time the loan was released, contrary to NHMFC Corporate Circular No. AKPF 006, as amended by SHFC Corporate Circular No. 13-001 series of 2013, which states that the loan matures within 36 months after each drawdown, thus, the developers of these projects had no financial capacity to pay at the time the loan was granted.

	Project	Amount Released	Amortization Payments	No. of Releases
1	La Vista Cruz Subdivision	26,000,000	0	5
2	Cristina Homes I Subdivision	5,500,000	0	3
3	Villa Rita Subdivision	15,000,000	0	4
4	Juel Country Homes	13,000,000	0	4
5	Olympia Village	3,000,000	0	2
6	Villa Alejandrea Subdivision	30,500,000	0	3
7	Rivera Heights Subdivision	22,000,000	0	3
		115,000,000		

17.20 The following four projects are still recorded as Long-term Receivables despite having remained outstanding for a long period of time instead of undergoing the foreclosure process. Details follow:

Name of Project	Approved Loan	Released Loan	Date Released	Balance as at Dec. 31, 2019
Rivera Heights Subd.	27,500,000	22,000,000	November 1997	22,011,606
Villa Alejandrea Subd.	38,000,000	30,500,000	November 1997	30,500,000
Palao Country Homes	40,000,000	40,000,000	November 1997	29,791,950
Corryville Housing Project	13,000,000	13,000,000	December 1991	7,617,933
				89,921,499

17.21 The AKPF funds amounting to P315.630 million which remain idle since CY 2010 with no utilization, except for administrative expenses, and the improper monitoring of the implementation of previous projects resulted in the non-attainment of the objectives for which it was created, specifically the amortization support and developmental financing component, pursuant to RA No. 6846, as amended, defeating the goal of the NG program in addressing the urgency of the housing need that caters to low-income bracket families.

17.22 **We recommended that Management:**

a. **Make representation with proper authorities and recommend the transfer of the AKPF funds which have been idle for several years, to other housing programs of SHFC, such as the CMP and HDH, to provide more decent and affordable housing units to the intended beneficiaries who are the ISFs;**

b. **Fast-track the transfer of the TCTs of the foreclosed and dacioned properties in the name of SHFC; and**

c. **Dispose of properties already in the name of SHFC through public bidding.**

17.23 Management commented that they plan to utilize the P315.630 million to partially finance the CMP modalities of SHFC. Currently, they are revisiting the existing guidelines on the loan assistance program to adapt to the changing condition of the market. Also, Management set their intention to tie up with the Local Government Units and other National Government Agencies for the disposition of the AKPF acquired assets in order to augment these funds.

17.24 Further, Management mentioned that the Trust Administration Department had been fast-tracking the transfer of titles to SHFC. The delay in the transfer was beyond the control of SHFC such as the slow processing of tax clearance and unlocated TCTs in the file of the Registry of Deeds, etc. Thus, the Management commits to finish this undertaking and to dispose the projects the soonest possible time in order to recover loss of SHFC.

18. Status of Suspensions, Disallowances and Charges

18.1 The total audit suspensions, disallowances and charges and settlements as at December 31, 2019 are shown below:

Particulars	Balance, 1/1/2019	Issued this period (January to December 2019)	Settlement this period (January to December 2019)	Balance, 12/31/2019
NS	0	0	0	0
ND	71,187,312	5,657,500	40,500	76,804,312
NC	0	0	0	0

a. ND No. 2019-01(2018) amounting to P5.658 million dated October 17, 2019 pertains to the release of Collective Bargaining Agreement. As of to date no Appeal Memorandum from Management was received by this Office.

b. ND No. 2017-01-CIB- TD (2016) dated February 9, 2018 amounting to P71.030 million pertains to the garnished peso time deposit with DBP, including bank charges enforced by an Urgent Exparte Motion from case AC-973-RCMB-NCR LVA-024-01 titled SOHEAI vs. SHFC which is under appeal with the Commission on Audit.

c. ND issued for the payment of grocery subsidy and 13th month pay is being settled through salary deduction with a balance of P116,333.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS'AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 78 audit recommendations for both SHFC and AKPF embodied in the CY 2018 Annual Audit Report, 34 were fully implemented, 33 were partially implemented, nine were reconsidered, one was not implemented and one was issued with Notice of Disallowance. Out of the 34 partially/not implemented audit recommendations, 24 were reiterated in Part II of this Report. Details are presented below:

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
A. Social Housing Finance Corporation			
<u>CY 2018 AAR</u>			
Observation No.1, page 52	1. Undistributed Collections (UC) totaling P430.326 million remained un-posted to Mortgage Contract Receivable (MCR) due to the absence of a policy on the proper and timely distribution of UC to the appropriate individual ledgers of the member-borrowers (MBs). Thus, the UC and the MCR accounts are both overstated by the same amounts. Moreover, the General Ledger (GL) or controlling account for UC was not reconciled with the Subsidiary Ledger (SL) balances, resulting in a variance of P67.213 million, or 84 per cent of the GL balance. Both the overstatement and variance affect the fair presentation of the account balances in the financial statements, contrary to Paragraph 15 of Philippine Accounting Standards (PAS) 1.	a. Prioritize allocation of payments of MBs who availed of the one-year updating and remedial accounts to MCR;	Partially implemented Reiterated in Observation No. 1, Part II of this Report.
		b. Require the responsible/concerned operating unit/department to coordinate and reconcile the individual MBs with the CA account under the FCD;	Partially implemented Reiterated in Observation No.1, Part II of this Report.
		c. Submit work breakdown schedule to post and allocate UC for CY 2018 by at least: i. 65 per cent of the UC by end of CY 2019; and ii. 35 per cent of the UC by end of CY 2020;	Partially implemented Reiterated in Observation No. 1, Part II of this Report.
		d. Reconcile the variance between the SL and GL balances by at least: i. 65 per cent of the UC by end of CY 2019; and	Partially implemented Reiterated in Observation No. 1, Part II of this

Reference	Audit Observations	Audit Recommendations	Status/ Actions Taken
		ii. 35 per cent of the UC by end of CY 2020;	Report.
		e. Oblige the CAs to remit amortizations of MBs with the accompanying Remittance Report and Abstract of Collection reflecting the individual monthly payments by the MBs in accordance with the Collection Agreement;	Partially implemented Reiterated in Observation No. 1, Part II of this Report.
		f. Require the Information and Communication Technology Department (ICTD) to enhance the database to include the HDH Projects and all other accounts not yet in the database;	Partially implemented Reiterated in Observation No.1, Part II of this Report.
		g. Require the NHMFC to submit listing of MBs relative to the transferred accounts amounting to P83.570 million;	Partially implemented Reiterated in Observation No. 1, Part II of this Report.
		h. Formulate policy on the number of days within which to distribute/allocate payments made by MBs to avoid the accumulation of UC; and	Partially implemented Reiterated in Observation No. 1, Part II of this Report.
		i. Improve and update guidelines on substitution of MBs to avoid further accumulation of UC every year.	Partially implemented Reiterated in Observation No. 1, Part II of this Report.

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
			This Observation was first raised in the AAR for CY 2010 and reiterated in CYs 2011 to 2018.
Observation No. 2, page 56	2. Assets of SHFC amounting to P19.189 billion were not stated at their fair value due to the absence of policy on the assessment, measurement and recording of impairment losses as required under PAS 36 and 39 for CY 2018, thus, casting doubt on the reliability and valuation of the corporate assets.	Formulate policy/guidelines on the assessment, measurement and recording of impairment losses of its recorded assets for CY 2018 as required under PAS 36 and 39.	Not implemented Reiterated in Observation No. 2, Part II of this Report. This observation was first raised in the AAR for CY 2016 and reiterated in CYs 2017 and 2018.
Observation No. 3, page 59	3. A variance of P608.773 million between the General Ledger (GL) and Subsidiary Ledger (SL) balances of the Mortgage Contracts Receivable - Community Mortgage Program (MCR-CMP) account as at December 31, 2018 casts doubt on the accuracy, reliability and validity of the account, contrary to Section 111 of Presidential Decree (PD) No. 1445 and Paragraph 15 of PAS 1.	a. Require the responsible/concerned operating unit/department to coordinate and reconcile the individual MBs with the CA account under the FCD;	Fully implemented
		b. Reconcile the variances between SL per CA and SL per MBs as well as SL and GL balances of P608.773 million by at least i. 65 per cent of the variance by end of CY 2019; ii. 35 per cent of the variance by end of CY 2020; and	Partially implemented Reiterated in Observation No. 3, Part II of this Report.

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
		c. Require the ICTD to assist the FCD in enhancing and developing an efficient and effective database.	Partially implemented Reiterated under Observation No. 3, Part II of this Report. This Observation was first raised in the AAR for CY 2016 and reiterated in CYs 2017 and 2018.
Observation No. 4, page 61	4. A High Density Housing Project (HDHP) amounting to P725.379 million was not completed within the period stipulated in the Building Construction and Site Development Agreement dated June 8, 2015. It has a slippage of 857 days, or almost two and a half years, as at December 31, 2018, depriving the Informal Settler Family (ISF)-beneficiaries living in waterways and danger areas of affordable and decent housing, resulting in the non-attainment of the objectives of the Program, including the non-recovery of the Corporate investment in housing projects.	a. Compute for and demand the payment of liquidated damages from the Contractor, pursuant to Article XI of the Building Construction and Site Development Agreement; b. Implement the following remedies provided in the Agreement against the Contractor: • Give written notice to the Contractor to proceed with such work and to perform such agreement; • If the Contractor fails to do so within seven days from receipt thereof, the HOA and SHFC shall have the	Reconsidered SHFC has no direct contract/ arrangement with the Contractor engaged by the HOA. Reconsidered SHFC has no direct contract/ arrangement with the Contractor engaged by the HOA.

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
		option to proceed against the bond and enter the premises and to employ any other contractor to complete the work at the expense of the Contractor; and	
		c. As part of due diligence in future projects, ensure that SHFC undertakes assessment of the contractor/developer and that loan releases are made only on the basis of duly validated Statement of Work Accomplishment pursuant to Sections 8 and 9 of Corporate Circular HDH No. 14-002 dated March 31, 2014.	Fully implemented
Observation No. 5, page 67	5. Absence of month-to-month contract extension for janitorial and security services with expired contracts in CYs 2017 and 2018 is contrary to the Revised Guidelines on the Extension of Contracts for General Support Services issued by the General Procurement and Policy Board (GPPB) and RA No. 9184. Payments amounting to P98.219 million were made for the services rendered.	a. Immediately subject the procurement of janitorial and security services to competitive bidding process; and	Fully implemented
		b. Strictly comply with RA No. 9184 on the rules and regulations on the procurement of support services.	Fully implemented
Observation No. 6, page 71	6. Collective Negotiation Agreement (CNA) incentive amounting to P5.658 million was granted by SHFC to its 230 officers and employees despite accomplishment below the required rating based on SHFC's Performance Scorecard on	Make representation with the GCG for the final score of the Corporation based on the GCG-approved Performance Scorecard.	Disallowed the CNA incentive of P5.658 million granted to SHFC officers and employees

<table>
<tr><th rowspan="2">Reference</th><th colspan="2">Audit</th><th rowspan="2">Status/ Actions Taken</th></tr>
<tr><th>Observations</th><th>Recommendations</th></tr>
<tr><td></td><td>Key Performance Indicators as approved by the Governance Commission for GOCCs (GCG), contrary to DBM Budget Circular No. 2018-05.</td><td></td><td>under Notice of Disallowance (ND) No. 2019-01(2018) dated October 17,2019</td></tr>
<tr><td>Observation No. 7, page 73</td><td>7. Past due/in-default car loan amortizations amounting to P2.225 million of eight retired officers and former members of the Board of Directors remain uncollected as at December 31, 2018, contrary to the IRR of the SHFC Officers Vehicle Acquisition Assistance Program (VAAP), resulting in the non-recovery or loss of the funds expended for the car loan program.</td><td>a. Immediately collect the total car loan obligation from the retired officers and former members of the Board;</td><td>Reconsidered

The observation was reiterated with modification in Observation No 10, Part II of this Report.</td></tr>
<tr><td></td><td></td><td>b. Extrajudicially enforce the Deed of Reconveyance or Deed of Sale and/or Chattel Mortgage Agreement and immediately repossess the motor vehicle from the Officer concerned; and</td><td>Reconsidered

The observation was reiterated with modification in Observation No. 10, Part II of this Report.</td></tr>
<tr><td></td><td></td><td>c. Exercise immediately the legal remedies provided under the IRR of the SHFC Officers VAAP.</td><td>Reconsidered

The observation was reiterated with modification in Observation</td></tr>
</table>

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
			No. 10, Part II of this Report.
Observation No. 8, page 76	8. Unserviceable equipment items with acquisition cost of P1.567 million which have long been stored and occupying space in the office, remain undisposed, contrary to Section 79 of PD No. 1445 and COA Circular Nos. 89-296 and 2004-008, resulting in their further deterioration.	Gather/restructure available data required for the immediate disposal of all unserviceable property and equipment in accordance with the modes prescribed under COA Circular No. 89-296.	Partially implemented The three quotations received from prospective buyers are for evaluation and approval of the Committee on Disposal.
Observation No. 9 a, page 77	9. Cashiers/Tellers 9.1. The two Collecting Tellers were outsourced personnel, not officially designated and not accordingly bonded, contrary to Section 101 of PD No. 1445 and Sections 4.1 and 6.2 of Treasury Circular No. 02-2009, exposing the Corporation to the risk of non-replacement/recovery of government funds in case of shortages, defalcations and unrelieved losses.	Properly designate and secure approved bond from the BTr for employees whose duties require the possession or custody and control of government funds or property.	Fully implemented
Observation No. 9 b, page 79	9.2. Fidelity bonds of two former Accountable Officers of the Treasury Department were still renewed, despite their having been transferred to other departments and whose functions do not require the possession, custody or control of funds or properties, contrary to Section 7.4 of Treasury Circular No. 02-2009, thus, entailing unnecessary	a. Submit the request for the cancellation of the Fidelity Bond of the two Accountable Officers who no longer function as such pursuant to Section 7.4 of Treasury Circular No. 02-2009; and b. Strictly monitor the period of effectivity of the Fidelity Bonds of Accountable Officers and do	Fully implemented Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	expenses in the form of premium payments.	not renew the bond on its expiration of those whose function no longer require the possession, custody and control of government funds.	
Observation No. 9 c, page 80	9.3. Eight pieces/set of unused Community Mortgage Receipts (CMRs) and two pieces/set of unused Official Receipts (ORs) were detached from the booklet currently being used by the Tellers during the cash count, contrary to Section 123 of PD No. 1445 which may result in the possible misplacement or loss of unused CMRs/ORs or even unauthorized/fraudulent collection of funds.	Require the Tellers to: a. Stop the practice of detaching CMRs/ORs from the booklet if not for immediate issuance; and b. Exercise due care and keep the unissued accountable forms intact and attached to the booklet.	 Fully implemented Fully implemented
Observation No. 9 d, page 81	9.4. One piece of CMR and one piece of OR were pre-signed by one Teller who was on leave of absence for the period July 3, 2018 up to July 29, 2018, defeating the objectives of internal control, thus, exposing the Corporation to the risk of unauthorized or fraudulent collection and possible loss of public funds.	a. Immediately discontinue the practice of pre-signing CMRs and ORs; and b. Strictly implement sound internal control, especially on the issuance of accountable forms.	Fully implemented Fully implemented
Observation No. 9 e, page 81	9.5. There were 28 CMRs cancelled due to various deficiencies of information on the checks received by the Tellers/Cashiers for payment, contrary to Clearing House Operation Memorandum (CHOM) No. 15-460A issued by the Philippine Clearing House Corporation, resulting in the accumulation of unpaid housing loan amortizations and additional cost to the	Exercise due care in scrutinizing the checks presented for payment to ensure completeness and correctness of information on the face of the check.	Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	Corporation for the cancelled CMRs.		
Observation No. 9 f, page 82	9.6. A total of 155 ORs and CMRs were cancelled due to laxity in the preparation of Order of Payment and the preparation and printing of the receipts, resulting in the incurrence of additional cost to the Corporation for the replacement of spoiled accountable forms.	a. Require the Accounts Management Department to exercise utmost due care in the preparation of Order of Payment and in the printing of CMRs and ORs and to verify correctness of information in the Order of Payment to avoid spoilage; and	Fully implemented
		b. Require the tellers of the Cash Management Department to submit monthly report of cancelled accountable forms stating the reasons for cancellation, including the complete set of all the cancelled accountable forms.	Fully implemented
Observation No. 9 g, page 83	9.7. Monthly Reports of Accountability for Accountable Forms (MRAAF) Without Money Value by each Cashier were not prepared and submitted to COA, contrary to Section 100 of PD No. 1445, resulting in the delay in the conduct of the mandatory audit and difficulty in the reconciliation and monitoring of accountable forms received and issued at any given month.	Immediately require all Cashiers to prepare the MRAAF every fifth of the following month and submit to COA for the mandatory audit.	Fully implemented
Observation No. 9 h, page 84	9.8. The Head Cashier also acts as the Petty Cash Custodian, contrary to Section 123 of PD No. 1445, defeating the purpose of internal control on the proper segregation of duties and responsibilities to reduce the risk of error or fraud.	a. Segregate the functions of the Head Cashier and Petty Cash Custodian to two employees for sound internal control; and	Fully implemented
		b. Require the Accountable Officer to properly accomplish the	Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	Likewise, replenishments were not properly recorded in the cashbook, resulting in incomplete recording of transaction details for easy monitoring and reconciliation.	cashbook by recording transactions chronologically, showing in the Particulars column the details of the transactions and posting the corresponding amounts in the debit and credit columns before showing the balance.	
Observation No. 9 i, page 85	9.9. There were 380 General Fund 1 (LBP) checks with covering serial numbers 468921 to 469300 which were printed in the old format that is no longer acceptable to banks, contrary to Memorandum Circular No. 3126 of the Philippine Clearing House Corporation (PCHC).	Cancel all checks in the old format and submit to the Office of the Auditor with proper report as corroborating evidence for proper disposal.	Fully implemented
Observation No.10, page 85	10. Public bidding was not conducted for the acquisition of insurance provider to manage the Group Mortgage Redemption Insurance (MRI) of loan borrowers of the CMP and other similar home financing programs of SHFC, contrary to RA No. 9184, otherwise known as the Government Procurement Reform Act, thus, defeating the principles of transparency, accountability, equity, efficiency and economy.	Strictly comply with the provision of RA No. 9184 to conduct public bidding for the provisions of the group MRI to loan borrowers.	Partially implemented Reiterated with modification in Observation No. 9, Part II of this Report. This Observation was first raised in the AAR for CY 2017 and reiterated in CY 2018.
Observation No.11, page 88	11. A total of 161 Disbursement Vouchers (DVs) amounting to P76.963 million for CY 2018 remained un-submitted as of audit date, contrary to Section 107 of PD	a. Immediately submit the 161 DVs with complete supporting documents for the conduct of mandatory post-audit; and	Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	No. 1445, Sections 7.1.1 and 7.2.1 (a) of COA Circular No. 2009-006 and Section 6.5 of COA Circular No. 95-006, delaying the conduct of mandatory post-audit and the timely implementation of audit recommendations should there be audit observations noted.	b. Strictly adhere to the provisions of PD No. 1445, COA Circular Nos. 2009-06 and 95-006 on the submission of DVs to COA.	Fully implemented
Observation No. 12, page 89	12. Acquisition of four drones, or remote-controlled system aircraft, amounting to P260,000 intended for SHFC's Regional Operations Offices for the survey of project sites was not supported with proper documentation, contrary to the Philippine Drone Regulation insurance and the Manual of Standards for Aerodromes by the Civil Aviation Authority of the Philippines (CAAP). Moreover, in addition to the Environment Compliance Permit (ECC), DENR requires all project proponents to undertake an Engineering Geological and Geohazard Assessment.	a. Submit the documents on the planning for the purchase of the drones including the specifications and intended benefits of the equipment purchased to justify its necessity; and b. Issue the equipment to the concerned unit for the immediate use in accordance with the intended purpose.	Fully implemented Fully implemented
Observation No. 13, Page 94	13. Travel expenses amounting to P70,884 incurred for the Learning Exchange Program were not in accordance with the mandate of SHFC as provided under Executive Order No. 272. Moreover, airline ticket rebooking and other fees amounting to P13,212 were charged to travel expenses.	Demand for the refund of the travel expenses totaling P84,096, otherwise, the disbursement shall be disallowed in audit.	Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
Observation No. 14, Page 96	14. Procurement of airfare tickets was still made through direct booking or travel agencies, instead of procuring them from the Department of Budget and Management-Procurement Service (DBM-PS) under the Government Fares Agreement (GFA) using the Philippine Government Electronic Procurement System (PhilGEPS), contrary to the Government Procurement Policy Board (GPBB) Resolution No. 11 - 2017 and Sections 1, 2 and 6(b) of Administrative Order (AO) No. 17, series of 2011.	Comply with the requirements of PhilGEPS in adopting the GFA.	Reconsidered GPPB Resolution No. 21-2019 was issued approving the delisting of Airline Tickets under the Government Fares Agreement in the List of Common Use Supplies and Equipment of the Procurement Service.
Observation No. 15, Page 97	15. The amount allocated for Gender and Development (GAD) programs, projects, and activities (PPAs) was only P7.716 million or .003 per cent, instead of P138.068 million which is five per cent of the approved Corporate Operating Budget (COB) amounting to P2.761 billion, contrary to Joint Circular No. 2012-01 issued by the Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and Department of Budget and Management (DBM). Out of the total allocation, only P2.931 million or 38 per cent was utilized, reducing the opportunity of women and other concerned parties to participate and benefit from the GAD PPAs. Moreover, two out of the 12 planned	a. Properly allocate or attribute GAD-related expenses to maximize the use of the budget required to be allocated for GAD activities to conform strictly with the provisions under Paragraph 2.3 of Joint Circular No. 2012-01 issued by PCW-NEDA-DBM; and b. Monitor properly the implementation of the planned GAD PPAs, which should be done as per schedule within the budget year, as approved by PCW.	Fully implemented Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	GAD activities were not implemented.		
CY 2017 AAR			
Observation No. 3, page 48	16. CMP accounts totaling P88.154 million transferred by the NHMFC without the corresponding supporting documents and 638 accounts with negative balances amounting to P8.818 million cast doubts on the accuracy of the Insurance Receivable - MBs account balance of P295.382 million under the CMP, contrary to paragraph 15 of PAS 1.	a. Analyze and reconcile the accounts with lapsed MRI premiums and immediately apply the negative balances to future periods of insurance coverage or to the loan balances or refund to the MBs if loan is already fully paid; and	Partially implemented The Finance and Comptroller-ship Department is still in the process of completing the working papers for the one-time reconciliation.
		b. Strictly adhere to Corporate Circular No. CMP-18 and SHFC Office Order No. 08-0137.	Fully implemented
Observation No. 5, Page 53	17. MCR – Past Due account balance per GL of P2.854 billion for the 27,257 accounts differed by P1.533 billion or 54 per cent against the SL balances totaling to P1.321 billion, contrary to Section 111 of PD No. 1445 and Paragraph 15 of PAS 1, thus, casting doubt on the accuracy and reliability of the account. Moreover, the MCR – Past Due account has remained past due and uncollected for a period ranging from four months to more than ten years and without a single payment after take out.	a. Reconcile and adjust the MCR-Past Due account by at least: • 30 per cent by 2018 • 30 per cent by 2019 • 40 per cent by 2020	Partially implemented Reiterated in Observation No. 3, Part II of this Report.
		d. Foreclose the delinquent accounts specially those of more than ten years and without a single payment after take out, after exhausting all remedies, and consolidate in the name of SHFC as prescribed under R.A. 9507.	Reconsidered Management only imposes substitution process instead of foreclosure.

<table>
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<tr><th>Observations</th><th>Recommendations</th></tr>
<tr><td>Observation No. 6, Page 54</td><td>18. A High-Density Housing (HDH) project amounting to P414.049 million was approved by the Board and payment amounting to P100.329 million was made despite Greater Metro Manila Area (GMMA) Hazard Map result that the lot is susceptible to moderate flooding, within the tsunami inundated area, susceptible to moderate liquefaction, thereby not suitable for relocation contrary to EO No. 272 and Corporate Circular No. 13-026.</td><td>If the result of the soil testing of the subject property is favorable, demand the contractor to complete the project.</td><td>Partially implemented

Management has already met with the Contractor of the Project and it was agreed upon that the latter may proceed with the construction only after the hauling of garbage to be done by the accredited hauler of the Valenzuela City Government. The construction of perimeter fence will be done after the hauling services.</td></tr>
<tr><td rowspan="2">Observation No. 10, Page 66</td><td rowspan="2">19. 19 Double availment and inconsistencies and incomplete information were noted in the database/masterlist of MBs who availed under the CMP and HDH Projects, contrary to Section 16 (c) of RA No. 7279 and Section 4 (6) of PD No. 1445 and Corporate Circular No. HDH 14-001, Series of 1989. Thus, the authenticity of the intended rightful MBs of the projects is doubtful, which may result in the non-attainment of the objectives of the CMP and HDH Projects.</td><td>a. Require from member-applicants the submission of Certificate of No Availment of Housing Unit/Project from any Shelter Agencies to prevent double availment of the housing units; and</td><td>Fully implemented</td></tr>
<tr><td>b. Coordinate with HUDCC for the establishment of the database for all housing agencies to avoid double availment.</td><td>Fully implemented</td></tr>
</table>

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
Observation No. 12, Page 71	20. No coverage for Mortgage Redemption Insurance (MRI) and Fire and Allied Peril Insurance (FAPI) was provided on the 13 completed and accepted HDH and 87 CAs of CMP projects with a total cost P1.375 billion, contrary to HDH Corporate Circular Nos. 16-008, 15-007 and 14-003 and Corporate Circular No. CMP-18 and SHFC Office Order No. 08-0137. Thus, 3,486 MBs may be deprived of the benefit of having fully paid housing loans in case of death or occurrence of fire and allied perils and posing risk on the non-recovery of SHFC's investment into housing.	a. Expedite the enrollment of the 2,932 MBs for HDH and 87 HOAs/CAs MBs occupying the 100 per cent completed and accepted CMP and HDH projects for both the life and non-life insurance coverage.	Fully implemented
Observation No.16, Page 80	21. The Chattel Mortgage Agreements (CMA) entered into by and between the SHFC and the 11 CAs with approved loans in the aggregate amount of P4.016 billion are contrary to the Chattel Mortgage Law (Act No. 1508), Article 2125 of the Civil Code of Philippines and relevant jurisprudence decided by the Supreme Court (SC), thus, the interest of the SHFC is put to risk against third party claimants in case of default by the MBs and the alienation or disposal of the housing units.	Exercise its right to demand the execution and the recording of the CMA with the RD in which the mortgage is formalized in order to protect its interest.	Partially implemented The registration of the Titles with the Registry of Deeds is still on going.
2016 AAR			
Observation No. 2, Page 29	22. Advances from Member Borrowers (MBs) amounting to P216 million as of	a. Determine individually the property being paid for, to identify the MB-payor and	Partially implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	December 31, 2016 are not supported with schedules and not reconciled with Individual Subsidiary Ledger of MBs, contrary to Section 111 of PD 1445 and Paragraph 15 of PAS 1, thus, casting doubt on the reliability and fair presentation of the account balance and not beneficial to MBs.	record unposted payments to MBs individual ledgers; and b. Adjust Receivable account and the related accounts accordingly.	Reiterated under Observation No. 1, Part II of this Report. Partially implemented Reiterated under Observation No. 1, Part II of this Report.
Observation No. 4, Page 34	23. Thirty-one Transfer Certificate of Title (TCTs) under Usufruct Agreement of HDH lot acquisition project valued at P392.284 million are still not transferred in the name of SHFC, thus, contrary to Section 6 of Corporate Circular No. 14-005 series of 2014. Likewise, TCT on the lot acquisition through SHFC Re-Financing Program of an LGU, amounting to P16.359 million was not transferred in the name of the CA and with no annotation of SHFC Mortgage while full payment was already made, contrary to Section 5 of the IRR 2014-003, thus, may result to non-recovery/loss of fund in case of a third party claimant.	Expedite the transfer of the subject TCTs in the name of SHFC for Usufruct and in the name of CA for the refinanced amount and annotate the same in the name of SHFC in compliance with Corporate Circular HDH No. 14-005 series of 2014 and IRR 2014-003	Partially implemented Management has already transferred three titles in the name of SHFC.
CY 2013 AAR			
Observation No. 2, Page 24	24. The variance of P999.70 million between the balances of Assets held in Trust-NHMFC and Trust liabilities – NHMFC casts doubt on the	Require the Accounting Department to review and reconcile the difference of P999.70 million between the Assets held in trust-NHMFC	Reconsidered Assets-held-in trust-NHMFC and

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	reliability of the account balances and contrary to Section 111 of PD No. 1445 and the principles of fair presentation of the Conceptual Framework for Financial Reporting.	and prepare the necessary adjusting entries to correct the variance noted.	Trust Liabilities-NHMFC are not reciprocal accounts.
Observation No. 4, Page 27	25. CMP loans amounting to P1.328 million were granted twice to 24 same beneficiaries with take-out dates from 2007 to 2012, contrary to Section 6.2.2 of SHFC Corporate Circular No. 11-017 series of 2011, thus constitutes irregular transaction as defined under COA Circular 2012-003 (3.1) dated October 29, 2012.	a. Investigate and file appropriate charges against the officers and employees responsible/liable or determined to be liable for the granting of double CMP loans to MBs. Impose sanctions to the beneficiaries in accordance with Section 15.3 of SHFC Corporate Circular No. 2011-017; and	Reconsidered There is no database and pertinent documents from where to check who among the officers and employees were responsible in the processing of the loan applications. It was only in CY 2014 that the Double Availment Management System was developed.
		b. Immediately demand the full payment of the second loans granted to subject beneficiaries and rescind the second lease purchase agreement for violation of the terms and conditions of the contract.	Partially implemented Substitution of the confirmed double availees is in process.
Observation No. 6, Page 30	26. Absence of supporting documents to substantiate the Guaranty deposits payable in the amount of	Require the Accounting Department to submit the documents that will substantiate the guaranty	Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	P702,888 received from the NHMFC in 2005 casts doubt on the accuracy and validity of the account balance.	deposits payable of P702,888 and prepare adjusting entries, where necessary.	

B. Abot-Kaya Pabahay Fund

CY 2018 AAR

Observation No. 16, Page 99	27. Assets of AKPF amounting to P260.219 million were not stated at their fair value for CY 2018 due to absence of policy on the assessment, measurement and recording of impairment losses as required under PAS 36 and 39, thus, casting doubt on the reliability and valuation of the Fund's assets.	Formulate policy/guidelines on the assessment, measurement and recording of impairment losses of its recorded assets as required under PAS 36 and 39 for CY 2018.	Partially implemented This will be addressed, together with Observation No. 2, Part II of this Report when the Contract of Services for the consultant for Accounting matters will take effect. The contract is still with the Legal Office of SHFC for review.
Observation No. 17, page 100	28. Other Non-Current Assets composed of Foreclosed and Dacion en Pago Properties totaling P180.870 million were presented in the Statement of Financial Position under the line item of Other Non-Current Assets, instead of a separate line item of Investment Property, contrary to International Accounting Standards (IAS) 40, which may lead to misinterpretation of financial information that is	Properly classify the Other Non-Current Assets composed of Foreclosed and Dacion en Pago Properties to Investment Property, in compliance with IAS 40.	Fully implemented

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	relevant to economic decision of stakeholders.		
Observation No. 18, Page 102	29. The House and Building Structures with appraised value of P20.789 million lodged under the Other Non-Current Assets account of the AKPF were not enrolled for Fire and Other Allied Perils Insurance (FAPI) coverage with the Government Service Insurance System (GSIS), contrary to Section 5 of RA No. 656, Memorandum Circular No. 634, s. 1973 of the Office of the President, and Section 3 of COA Circular No. 2018-002, thus, exposing SHFC to the risk of non-indemnification of insurable assets in case of loss arising from fire, theft, earthquake, storm and other fortuitous events.	a. Immediately enroll the House and Building Structures component of the Foreclosed Properties and Other Assets for FAPI Coverage with the GSIS; and b. Adhere strictly to the provisions of RA 656, MC 634 and COA Circular No. 2018-002.	Fully implemented Fully implemented
Observation No. 19, Page 105	30. A total of 2,205 Transfer Certificates of Title (TCTs) of the Foreclosed and Dacion en Pago Properties booked under Other Non-Current Assets are not yet consolidated in the name of SHFC, considering that foreclosure proceedings and settlements in kind had been undertaken as early as 2002, or more than 16 years, causing delay in the disposal of the property and exposing the housing structures to further deterioration.	a. Prioritize the transfer of the TCTs of the Foreclosed and Dacion en Pago Properties in the name of the SHFC; and b. Facilitate disposal of the properties to recover the funds invested into housing.	Partially implemented Reiterated with Modification in Observation No. 17, Part II of this Report Partially implemented Reiterated with Modification in Observation No. 17, Part II of this Report

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
Observation No. 20, Page 106	31. Real Property Taxes (RPT) amounting to P4.735 million under the Due to LGUs account remained unpaid as at December 31, 2018, despite having been accrued for one year to over seven years, contrary to RA No. 7160, or the Local Government Code of 1991. This may result in the delay of consolidation of titles in the name of SHFC as this constitutes lien on the property, or SHFC may even lose the property if the LGU concerned avails of the remedies by administrative action thru levy on real property or by judicial action.	a. Immediately pay the required RPT to avoid: i. accumulation of interests and penalties; ii. losing the property if LGU avails of remedies by administrative action thru levy on real property or by judicial action; iii. delay in the consolidation of titles in the name of SHFC to facilitate disposal; and	Fully implemented
		b. Follow-up status of the ongoing cases filed for speedy disposition of the properties.	Partially implemented The Rivera Heights Subdivision title is already in the name of the LGU of Bataan, but the annotation is still in favor of SHFC. For the La Vista Cruz Subdivision, the case is ongoing. SHFC has already filed counter claim for the offer of the developer to repurchase the property.

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<tr><th rowspan="2">Reference</th><th colspan="2">Audit</th><th rowspan="2">Status/ Actions Taken</th></tr>
<tr><th>Observations</th><th>Recommendations</th></tr>
<tr><td></td><td></td><td></td><td>For the Palao Case, SHFC has already completed the presentation of evidence and filed a Formal Offer of Evidence and is awaiting resolution of the case.</td></tr>
<tr><td colspan="4"><u>CY 2016 AAR</u></td></tr>
<tr><td>Observation No. 7, page 43</td><td>32. There are lapses in management and implementation of AKPF which are contrary to the Trust Agreement entered into by and between the NHMFC and the SHFC, resulting in the following deficiencies that expose SHFC to the non-recovery of loan exposure.

A total of 202 TCTs remain unaccounted and undelivered by three developers who availed of the Developmental Loan Projects in violation of Section 3.02 of the Loan Agreement and Trust Receipts, thus, posting the risk that the TCT/s and Corporation loan exposure may not be recovered.

Nine developers were able to avail of a loan amounting to P134.50 million under AKPF despite non-compliance with schedule of completion for the land development and housing construction,</td><td>a. Undertake immediate legal action to secure/recover the financial exposure on the above-mentioned projects and update this office of the status of action taken considering the period that lapsed;</td><td>Partially implemented

For Catbalogan City Homes and Cristina Homes 1, TCTs are already in the name of SHFC.

The transfer of TCTs in the name of SHFC for the foreclosed properties of Villa Haniya, Christina Homes II and Evergreen Subdivision are in process.

For Juel Country Homes,</td></tr>
</table>

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	contrary to the Section 4 (4.02) of the Memorandum of Agreement and Section 2.02 of the Loan Agreement. Thus, a very low percentage of development and the return of investment on the loan exposure, after 19-21 years remains nil. The existence of third-party claimants on the property mortgaged for a Subdivision and the foreclosed property of a Subdivision Projects cast doubts on the recovery of capital exposures amounting to P22 million and P26 million, respectively, and on the legality of the rights/ownership of the property. A total of 726 TCTs of acquired properties with loan amounting to P66 million were not consolidated in the name of the NHMFC/SHFC notwithstanding the lapse of eight to 14 years after the expiration of one-year redemption period, thus, resulting in the delay in the disposal of asset and exposing the property to further depreciation or deterioration.	b. Determine the persons liable for the deficiencies noted and file appropriate administrative action for failure to perform their functions.	Olympia Village and UPLB ONAPUP-Dacion en Pago - Transfer of TCTs in the name of SHFC on going. Partially implemented A letter was sent to the Administrator of the Land Registration Authority on November 22, 2019 requesting for assistance in the investigation/ validation of the authenticity of the titles offered as collateral for the Villa Alejandria Subdivision, an AKPF Project.
CY 2015 AAR			
Observation No. 8, Page 41	33. The proceeds of the developmental loan granted for the development of a subdivision totalling to P30.500 million for the benefit	a. Conduct further investigation and inquiry on the report dated February 11, 2005 submitted by the Joint Inspection Team.	Partially implemented Reiterated with

Reference	Audit		Status/ Actions Taken
	Observations	Recommendations	
	of project beneficiaries was not properly implemented contrary to Section 4.02(a) of the Memorandum of Agreement (MOA) between the NHMFC and its proponent.		Modification in Observation No. 32 b, (CY 2016), Part III of this Report
CY 2012 AAR			
Observation No. 8, Page 33	34. AKPF developmental loans totaling P97.719 million remained non-performing from 2 years to 18 years but no foreclosure action was initiated or more aggressive collection measures adopted that could affect the recovery of corporate exposure.	Initiate foreclosure action or adopt more aggressive collection measures, if warranted, on long outstanding receivables in order to quickly recover corporate exposure. Also, establish guidelines on the disposition of non-performing assets to prevent accumulation thereof.	Partially implemented Reiterated with Modification in Observation No. 32a, (CY 2016), Part III of this Report

PART IV

ABOT-KAYA PABAHAY FUND

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	4	**315,638,020**	310,755,953
Receivables	5	**4,770,478**	10,676,632
		320,408,498	321,432,585
Non-current assets			
Receivables	5	**67,441,124**	68,493,490
Property and equipment	6	**153,437**	179,310
Investment property	7	**189,838,167**	180,869,876
		257,432,728	249,542,676
TOTAL ASSETS		**577,841,226**	570,975,261
LIABILITIES AND FUND BALANCE			
Liabilities			
Inter-agency payables	8	**24,531,112**	19,867,277
Other current liabilities	9	**750,009**	1,234,107
TOTAL LIABILITIES		**25,281,121**	21,101,384
Fund balance	10	**552,560,105**	549,873,877
TOTAL LIABILITIES AND FUND BALANCE		**577,841,226**	570,975,261

The Notes on pages 151 to 165 form part of these financial statements.

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018
INCOME			
Service and business income	11	**15,285,339**	9,923,915
		15,285,339	9,923,915
EXPENSES			
Personnel services	12	**3,182,167**	7,478,727
Maintenance and other operating expenses	13	**9,886,432**	5,354,111
Financial expenses	14	**178,324**	17,732
Non-cash expenses	15	**25,873**	28,478
		13,272,796	12,879,048
INCOME/(LOSS) BEFORE TAX		**2,012,543**	(2,955,133)
Other non-operating income	16	**10,897**	16,468
		2,023,440	(2,938,665)
NET INCOME/(LOSS)		**2,023,440**	(2,938,665)

The Notes on pages 151 to 165 form part of these financial statements.

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENTS OF CHANGES IN FUND BALANCE
For the Years Ended December 31, 2019 and 2018
(In Philippine Peso)

	Note	Total
Balance as at January 1, 2018		552,109,614
Net loss		(2,938,665)
Retained earnings		702,928
Balance at December 31, 2018	10	549,873,877
Balance as at January 1, 2019		549,873,877
Net income		2,023,440
Retained earnings		662,788
Balance at December 31, 2019	10	**552,560,105**

The Notes on pages 151 to 165 form part of these financial statements.

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Installment sales receivable, current		**20,131,625**	11,684,779
Interest income received		**2,123,131**	2,077,253
Refund of cash advance		**570,100**	301,563
Buyer for emittance to BIR		**545,411**	0
Other receipts		**600**	0
Payment of realty tax		**(16,600,494)**	(4,251,221)
Payment of cash advance		**(1,493,947)**	(765,440)
Payment of operating expenses		**(394,359)**	(210,311)
Payment of foreclosure expenses		**0**	(103,793)
Net cash provided by operating activities		**4,882,067**	8,732,830
CASH FLOWS FROM INVESTING ACTIVITIES			
Capitalized cost		**0**	0
Acquisition of property, plant and equipment		**0**	0
Net cash provided by investing activities		**0**	0
INCREASE IN CASH AND CASH EQUIVALENTS		**4,882,067**	8,732,830
Cash and cash equivalents at beginning of the year		**310,755,953**	302,023,123
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**315,638,020**	310,755,953

The Notes on pages 151 to 165 form part of these financial statements.

ABOT-KAYA PABAHAY FUND
SOCIAL HOUSING FINANCE CORPORATION (as Trustee)
AMORTIZATION SUPPORT AND DEVELOPMENTAL FINANCING COMPONENTS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Peso)

1. GENERAL INFORMATION

The Abot-Kaya Pabahay Fund (AKPF) was created under Republic Act (RA) No. 6846 under the trusteeship of the National Home Mortgage Finance Corporation (NHMFC) and was amended under RA No. 7835. The Fund shall be used exclusively for enhancing the affordability of low-cost housing by low income families thru the amortization support component and by providing developmental financing for low-cost housing projects.

In October 2005, the Amortization Support and Developmental Financing (ASDFC) component of AKPF was transferred to the Social Housing Finance Corporation (SHFC), a wholly-owned subsidiary of the NHMFC created by virtue of Executive Order (EO) No. 272 which was signed and approved by the President of the Republic of the Philippines on January 20, 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

The recording of the Fund's financial transactions is centralized in the Finance and Controllership Department. The Fund submits a monthly summary of transactions duly reviewed, certified and approved by its responsible officers to the Finance and Controllership Department for journal entry voucher preparation and recording in the books of accounts.

2.1 Basis of Preparation of Financial Statements

a. Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Fund have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense.

b. Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements.* The Fund presents all items of income and expenses in a single statement of comprehensive income.

c. Functional and Presentation Currency

These financial statements are presented in Philippine peso, the Fund's functional and presentation currency.

2.2 Adoption of New and Amended PFRS

a. *Effective in 2019 that are relevant to the AKPF:*

(i) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation.* The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the Solely Payments of Principal and Interest (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at Fair Value with changes Through Other Comprehensive Income (FVTOCI).

(ii) PAS 19 (Amendments), *Employee Benefits* – clarification on amendments, curtailment or settlement of a defined benefit plan, the current service cost and net interest for the remainder of the annual reporting period are calculated using updated actuarial assumptions - i.e. consistent with the calculation of a gain or loss on the plan amendment, curtailment or settlement.

b. *Effective in 2019 that are not relevant to the AKPF:*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2019 but are not relevant to the AKPF's financial statements:

(i) PFRS 16, *Leases (new)* - The new standard will eventually replace PAS 17, *Leases.*

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

(ii) IFRIC 23, *Uncertain over Income Tax Treatments.* The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(iii) PAS 28, Investment in Associates (Amendments) – Clarification on Fair Value through Profit or Loss Classification (effective from January 1, 2018). The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

c. *Effective for annual periods beginning on or after January 01, 2020 and thereafter:*

(i) PFRS 3 (Amendments), *Business Combinations and PFRS 11 (Amendments), Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation.* The amendments clarify that previously held interest in a joint operation shall be remeasured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business.

(ii) PAS 12 (Amendments), *Income taxes – Tax Consequences of Dividends.* The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

(iii) PAS 23 (Amendments), *Borrowing costs – Eligibility for Capitalization.* The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

(iv) PFRS 17 *Insurance Contracts supersedes PFRS 4 Insurance Contracts as at January 1, 2021.* The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

Under the prevailing circumstances, the adoption of the foregoing new and amended PFRSs is not expected to have any material effect on the financial statements of the Fund.

2.3 Financial Assets

A financial asset is any asset that is:

a. Cash;

b. An equity instrument of another agency;

c. A contractual right to receive cash or another financial asset;

d. A contractual right to exchange financial assets or liabilities with another entity on potentially favorable terms; or

e. A contract that will or may be settled in the Corporation's own equity instruments and is a non-derivative for which the Corporation is or may be obliged to receive a variable number of the Corporation's own equity instrument; a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Corporation's own equity instruments. For this purpose, the Corporation's own equity instruments do not include puttable financial instruments classified as equity instruments.

Recognition and Measurement

Financial assets are recognized in the Financial Position when, and only when, the Corporation becomes a party to the contractual provisions of the instrument. At initial recognition, the Corporation measures its financial assets at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets. After initial recognition, the Corporation measures its financial assets at fair value or amortized cost in accordance with PFRS rules on financial instruments.

Classification

A more detailed description of the categories of financial assets relevant to the authority are as follows:

Cash and cash equivalents are carried in the Statement of Financial Position at cost. Cash includes cash on hand and in bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and or at a very near maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash is measured at face value.

Loans and receivables are none derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as or financial assets at Fair Value Through Other Comprehensive Income (FVOCI) or financial assets at Fair Value Through Profit and Loss (FVPL).

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less impairment in value, if any. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in the Statement of Income and Expenses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of interest income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Allowance for impairment is maintained at a level considered adequate for potentially uncollectible receivables. The level of allowance is based on historical collection, current economic trends, and changes in the customer payment terms, age status of receivables and other factors that may affect collectability. The allowance is established by charges to income in the form of provision of doubtful accounts (now referred to as impairment).

2.4 Property and Equipment

Property and equipment are carried at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions and major improvements are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Leasehold improvements	10
Furniture and fixtures	10
Office equipment	5
IT equipment	5

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect to those assets.

2.5 Financial Liabilities

Financial liabilities are contractual obligations to deliver cash or another financial asset or to exchange financial instruments with another agency on potentially unfavorable terms. Financial liabilities are recognized when the Corporation becomes a party to the contractual terms of the instrument. All interest related charges are recognized as an expense in profit or loss under the caption Financial Expenses in the Statement of Comprehensive Income.

Trade and other payables, due to related parties and other non-current liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or AKPF does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the Statement of Financial Position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.6 Revenue and Expense Recognition

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by AKPF for services rendered.

Revenue is recognized to the extent that the revenue can be measured reliably; it is probable that future economic benefits will flow to AKPF; and the costs incurred or to be incurred can be measured reliably. In effect, the recognition of an income occurs simultaneously with the recognition of a decrease in liabilities or an increase in assets. In addition, interest income on special savings is accrued on a time proportion basis, by reference to the principal amount outstanding and at the interest rates applicable.

Cost and expenses are recognized in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in an asset or an increase in 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.

When economic benefits are expected to arise over several accounting periods and the association with income can only be indirectly determined, expenses are recognized in the income statement on the basis of rational allocation procedures. This is often necessary in recognizing the expenses associated with the using up of assets. These allocation procedures are intended to recognize expenses in the accounting periods in which the accounting benefits associated with these items are consumed.

An expense is recognized immediately in the Statement of Comprehensive Income when expenditure produces no future economic benefits or when future economic benefits do not qualify or cease to qualify for recognition in the Statement of Financial Position as an asset.

Cost and expenses are also recognized upon utilization of services or at the date they are incurred. All costs are reported in the Statement of Comprehensive Income on an accrual basis.

2.7 Employee Benefits

The employees of the AKPF are members of the Social Security System (SSS) which provides life and retirement insurance coverage.

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

The Corporation recognizes expenses for accumulating earned leaves. Non-accumulating compensated absences, like special leave privileges, are not recognized.

2.8 Events After the End of the Reporting Period

Any post year-end event that provides additional information about AKPF's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of AKPF's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

a. *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies.

b. *Key Sources of Estimation Uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

i. *Impairment of Trade and Other Receivables*

An adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. AKPF evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of AKPF's relationship with the customers, the customers' current credit status, the average age of accounts, collection experience and historical loss experience.

ii. *Estimation of Useful Lives of Property and Equipment*

AKPF estimates the useful lives of property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment, and intangible assets are analyzed in Note 6. Based on management's assessment as at December 31, 2019 and 2018, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2019	2018
Investment in treasury bills – local	**313,924,841**	302,877,791
Cash in bank – LBP 1	**1,488,762**	3,059,233
Cash in bank – LBP 2	**224,417**	4,818,929
	315,638,020	310,755,953

Investment in treasury bills – local represents investment in time deposits classified as highly liquid investments maturing from 60 days up to 91 days or not more than three months from date of placements.

5. RECEIVABLES

This account consists of:

	2019	2018
Current:		
Interest receivable	**3,718,112**	6,154,003
Sales contract receivable – current	**1,052,366**	4,522,629
	4,770,478	10,676,632

(Forward)

	2019	2018
Non-current:		
Loan receivable – others	**89,921,499**	89,921,499
Less: Allowance for doubtful accounts	**22,480,375**	22,480,375
	67,441,124	67,441,124
Sales contract receivable – long-term	**0**	1,052,366
	67,441,124	68,493,490

5.1 Interest Receivable

This account consists of accrued interest from Investment in Treasury Bills. The investment in treasury bills earns interest at the prevailing rates of 2.53 per cent to 5.47 per cent.

5.2 Sales Contract Receivable

This account represents the amortization due on the sale of acquired assets which are due after one year.

5.3 Loans Receivable – Others

This account pertains to accounts previously classified as Past Due Receivable–Developmental Loans and Items-in-Litigation.

a. *Rivera Heights Subdivision*

This was endorsed to Legal Department on June 24, 2007 due to the unreturned 282 titles. It was again endorsed to Legal Department for the foreclosure by the Local Governmient Unit (LGU) of Bataan on November 29, 2007 due to non-payment of realty taxes. However, the negotiation did not push through because of the claim of the Authority for Freeport Area of Bataan (AFAB) on the property by virtue of Proclamation No. 740 series of 1970 and amended by Proclamation No. 900 series of 1971. An initial meeting was held on September 9, 2016 to discuss the issue.

A Technical Working Group (TWG) for the renegotiation with the province of Bataan for the repurchase of Rivera Heights Subdivision was constituted per Office Order No. 18-0852.

The TWG convened last August 23, 2018 to discuss some possible actions for the repurchase of Rivera Heights Subdivision for presentation to Management for approval. However, as at December 31, 2018, there was still no update regarding the matter.

The AKPF was tasked by the TWG to secure a copy of the new title already in the name of Province of Bataan and to verify back titles with annotation of mode of transfer.On December 6, 2019, AKPF was able to secure a photocopy of 1 new title in the name of the Province of Bataan. The certified true copy of this title and back titles are still for scanning. After this, the TWG will convene again.

b. *Villa Alejandrea Subdivision*

This was endorsed to Legal Department due to missing owner's copy of Transfer Certificate of Title (TCT) no. T-274150 as mortgaged collateral with a total area of 120,000. However, only the e-copy of the said title (T-274150) is in SHFC's possession.

Based on the site inspection/verification report dated February 11, 2005 undertaken by NHMFC, it was revealed that G-Carmel surrendered to NHMFC as security for the loan a title which was not the actual property that was developed and improved out of the developmental loan acquired from NHMFC.

The representative of G-Carmel offered to substitute the collateral property with the property actually developed out of the AKPF loan. The property was allegedly covered by TCT No. T-284306 with an area of 97,545 square meters under his name.

On November 20, 2019, SHFC wrote to Land Registration Authority (LRA) requesting for investigation of lost collateral title. This letter was already forwarded to the investigating unit of the LRA on December 16, 2019.

c. *Palao Country Homes*

This was endorsed to Legal Department for foreclosure on March 30, 2015 and still awaiting for the resolution of the case filed by GNP Construction against SHFC before the Regional Trial Court (RTC) of Quezon City assailing SHFC's decision of disapproval of requested waiver of interest prior to filing of foreclosure.

SHFC has already completed its presentation of evidence and filed a Formal Offer of Evidence as manifested during the compliance hearing on May 27, 2019.

The case was submitted for resolution. The compliance hearing was set on December 9, 2019.

On December 9, 2019, Plaintiff requested for extension to file its memoranda, hence, compliance hearing was reset on January 27, 2020.

6. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property and equipment at the beginning and end of 2019 and 2018 are shown below:

	Office Equipment	Information and Communication Technology	Furniture and Fixtures	Leased Assets Improvement, Building	Total
Cost					
January 1, 2019	461,376	34,815	99,235	193,243	788,669
December 31, 2019	461,376	34,815	99,235	193,243	788,669

(Forward)

	Office Equipment	Information and Communication Technology	Furniture and Fixtures	Leased Assets Improvement, Building	Total
Accumulated Depreciation					
January 01, 2019	(447,161)	(31,333)	(67,094)	(63,771)	(609,359)
Depreciation	(3,543)	0	(4,938)	(17,392)	(25,873)
December 31, 2019	(450,704)	(31,333)	(72,032)	(81,163)	(635,232)
Net Book Value					
December 31, 2019	**10,672**	**3,482**	**27,203**	**112,080**	**153,437**
Cost					
January 1, 2018	461,376	34,815	99,235	193,243	788,669
December 31, 2018	461,376	34,815	99,235	193,243	788,669
Accumulated Depreciation					
January 1, 2018	(443,618)	(31,521)	(59,363)	(46,379)	(580,881)
Adjustments	0	188	0	0	188
Depreciation	(3,543)	0	(7,731)	(17,392)	(28,666)
December 31, 2018	(447,161)	(31,333)	(67,094)	(63,771)	(609,359)
Net Book Value					
December 31, 2018	**14,215**	**3,482**	**32,141**	**129,472**	**179,310**

7. INVESTMENT PROPERTY

	2019	2018
Investment property	**189,838,167**	180,869,876

Investment Property pertains to eight foreclosed properties namely: La Vista Cruz Subdivision, Villa Haniya Subdivision, Evergreen Subdivision, Cristina Homes 1, Cristina Homes 2, Villa Rita Subdivision, Catbalogan City Homes and Plainville Homes Subdivision.

This also consist of properties acquired from the settlement of accounts through Dacion en Pago for five projects namely: Juel Country Homes, UPLB Subdivision, Malinoville Subdivision, Villa Felipe Heights Subdivision and Olympia Village.

8. INTER-AGENCY PAYABLES

This account consists of:

	2019	2018
Due to other funds	**19,527,643**	15,132,593
Due to LGUs	**5,003,469**	4,734,684
	24,531,112	19,867,277

8.1 Due to Other Funds

This account represents personal services and other administrative expenses advanced by SHFC.

8.2 Due to LGUs

This account represents unpaid real property taxes due on the Rivera Heights Subdivision.

9. OTHER CURRENT LIABILITIES

	2019	2018
Other payables	**750,009**	1,234,107

Other payables represent taxes withheld from interest income on Investment in Treasury Bills – Local with Land Bank of the Philippines.

10. FUND BALANCE

	2019	2018
Fund balance, beginning	**549,873,877**	552,109,614
Net income/(loss)	**2,023,440**	(2,938,665)
Retained earnings	**662,788**	702,928
Fund balance, end	**552,560,105**	549,873,877

Retained earnings account comprises of the prior year's adjustments (Taxes, Duties and Licenses) due to over accrual.

11. SERVICE AND BUSINESS INCOME

	2019	2018
Interest income – investments	**14,954,250**	8,374,908
Interest income – sales contract receivable	**331,089**	913,915
Interest income – developmental loan	**0**	559,683
Fines and penalties – business income	**0**	75,409
	15,285,339	9,923,915

12. PERSONAL SERVICES

This account consists of:

	2019	2018
Salaries and wages – regular	**1,499,190**	3,445,159
Other compensation		
Year-end bonus	**155,210**	288,193
Transportation allowance	**72,031**	176,820
Representation allowance	**65,000**	162,000
Personnel economic relief allowance	**57,356**	143,908
Cash gift	**15,000**	30,000
Clothing/uniform allowance	**12,000**	36,000
Other bonuses and allowances	**728,201**	1,811,808
	1,104,798	2,648,729
Personnel benefit contributions		
Provident/welfare fund contributions	**280,907**	84,866
Retirement and life insurance premiums	**44,494**	580,301
PhilHealth contributions	**16,519**	33,905
Pag-IBIG contributions	**3,300**	7,200
Employees compensation insurance premiums	**870**	2,160
	346,090	708,432
Other personnel benefits		
Terminal leave benefits	**226,089**	658,407
Birthday gift	**6,000**	18,000
	232,089	676,407
	3,182,167	7,478,727

13. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

	2019	2018
Taxes, insurance premiums and other fees		
Taxes, duties and licenses	**7,548,192**	3,665,458
Fidelity bond premiums	**3,000**	3,000
Insurance expense	**81,145**	-
	7,632,337	3,668,458

(Forward)

	2019	2018
General services		
Other general services	**619,876**	470,836
Security services	**96,026**	96,026
Janitorial services	**16,430**	16,430
	732,332	583,292
Traveling expense		
Traveling expenses – local	**318,300**	206,099
	318,300	206,099
Utility expenses		
Electricity expenses	**92,128**	93,194
Water expenses	**15,644**	12,916
	107,772	106,110
Supplies and materials expenses		
Office supplies expenses	**30,669**	31,218
Fuel, oil and lubricants expenses	**35,152**	37,620
Other supplies and materials expenses	**1,026**	191
	66,847	69,029
Communication expenses		
Telephone expenses	**59,976**	61,956
	59,976	61,956
Other maintenance and operating expenses		
Rent/lease expenses	**233,325**	233,325
Representation expenses		1,885
Printing and publication expenses	**12,631**	8,753
Documentary stamps expenses	**21,680**	18,170
Other maintenance and operating expenses	**701,232**	397,034
	968,868	659,167
	9,886,432	5,354,111

14. FINANCIAL EXPENSES

This account consists of:

	2019	2018
Management supervision/trusteeship fees	**176,424**	16,182
Bank charges	**1,900**	1,550
	178,324	17,732

15. NON-CASH EXPENSES

This account consists of:

	2019	2018
Depreciation		
Depreciation – machinery and equipment	**3,543**	3,355
Depreciation – leased assets improvements	**17,392**	17,392
Depreciation – furniture, fixtures and books	**4,938**	7,731
	25,873	28,478

16. OTHER NON-OPERATING INCOME

This account consists of interest income from bank deposits amounting to P10,897 and P16,468 for the years 2019 and 2018, respectively.

17. COMPLIANCE WITH TAX LAWS

Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 amending certain provisions of RR No. 21-2002, as amended and implementing Section 6 (H) of the Tax Code of 1997 which authorize the Commissioner of Internal Revenue to prescribe additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying the tax returns. These regulations require that additional disclosures in the notes to financial statements shall be made to include information on taxes and license fees paid or accrued during the taxable year.

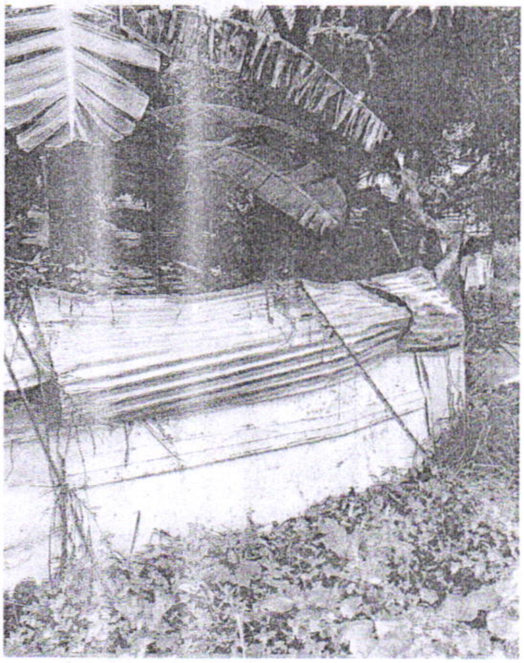
In compliance with the requirements set forth in RR No. 15-2010, hereunder are the information on taxes, licenses and fees paid or accrued during the taxable year.

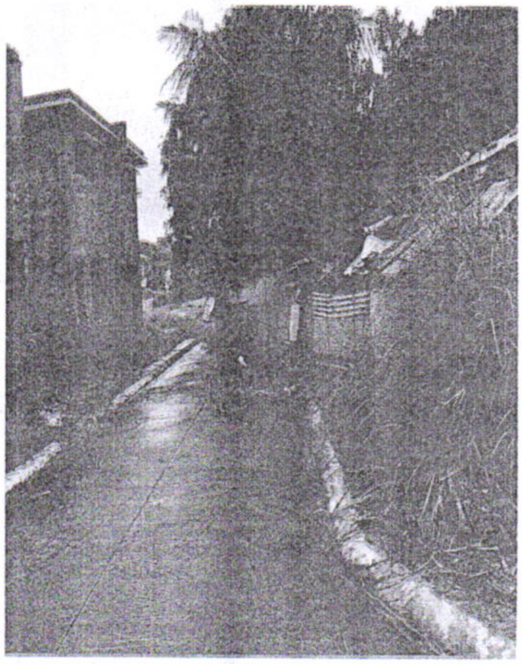
	2019	2018
Taxes and licenses		
Final tax paid on income	**2,973,281**	2,149,899
Real property tax	**4,574,911**	1,515,559
Fidelity bond premium	**3,000**	3,000
	7,551,192	3,668,458

ANNEX

ANNEX A

ENCROACHED AREA





Area subject for rip rapping (beside the river)