



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

ANNUAL AUDIT REPORT
(First Draft)

on the

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

For the Years Ended December 31, 2021 and 2020

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.

The creation of the SHFC, a wholly-owned subsidiary of the National Home Mortgage Finance Corporation (NHMFC), was in accordance with the Corporation Code, now Republic Act No. 11232 or the Revised Corporation Code of the Philippines. It 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, two Officer-in-Charge (OIC) Senior Vice-Presidents, 18 OIC Vice-Presidents and one Acting Vice-President. The personnel complement for calendar year 2021 is 684, with 222 regular, three probationary and 459 agency-hired employees. To date, the SHFC has 24 Satellite/Regional Offices located in Bacoar City, 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, Tubigon Bohol, Pampanga, Lucena, Daet, Iligan, Butuan City, Legaspi City, Imus Cavite, Dipolog City, Tacloban City and Biñan Laguna.

The DBM-approved Corporate Operating Budget (COB) of the SHFC for CYs 2021 and 2020 amounted to P5.652 billion and P6.634 billion, respectively, which were utilized as follows:

Particulars	2021		2020	
	Budget	Utilization*	Budget	Utilization*
	(In Thousand Pesos)			
Personnel services	340,585	282,929	333,049	276,281
Maintenance and other operating expenses	702,776	338,552	972,411	316,760
Capital outlay	89,066	51,647	62,527	52,914
Loan outlay	4,519,084	1,530,675	2,394,745	2,045,006
North-South Luzon Railway Project	0	142,139	2,607,128	70,170
Forward				

Particulars	2021		2020	
	Budget	Utilization* (In Thousand Pesos)	Budget	Utilization*
Marawi Recovery, Rehabilitation and Reconstruction Program	0	51,963	134,464	55,490
AKPF	0	9,372	129,571	14,864
	5,651,511	2,407,277	6,633,895	2,831,485

*The amounts of utilization presented are on a cash basis.

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	2021	2020	Increase (Decrease)
Assets	29,291,356,092	28,348,431,601	942,924,491
Liabilities	21,523,724,493	21,585,061,967	(61,337,474)
Equity	7,767,631,599	6,763,369,634	1,004,261,965

II. Comparative Results of Operations

Particulars	2021	2020	Increase (Decrease)
Total income	643,344,483	483,329,833	160,014,650
Total expenses	601,161,324	614,250,871	(13,089,547)
Profit/(Loss) before tax	18,550,251	(197,591,180)	216,141,431
Income tax expense	5,873,883	(54,703,975)	60,577,858
Profit/(Loss) after tax	36,309,276	(76,217,063)	112,526,339
Subsidy from National Government	985,958,563	427,766,158	558,192,405
Net income	1,022,267,839	351,549,095	670,718,744

OPERATIONAL HIGHLIGHTS

Performance Indicators	2021		
	Targets	Accomplishments	Wt.
Social Impact			
<i>Increase number of ISFs provided with Housing Financial Assistance.</i>	60,000 number of ISFs provided with housing finance assistance	14,693	35%
Stakeholders			
<i>Percentage of Satisfied Customers (Pre-Takeout)</i>	*90% of the Respondents gave a Satisfactory Rating.	85.1% of the respondents gave SHFC either a "very satisfied" or "satisfied" rating.	5%
<i>Percentage of Satisfied Customers (Post-Takeout)</i>	*90% of the Respondents gave a Satisfactory Rating.	92.2% of the respondents gave SHFC either a "very satisfied" or "satisfied" rating.	
Financial			
<i>Improve Collection Efficiency Rate</i>	* 90% CER on Current and Delinquent Accounts	90.11% CER	10%
<i>Improve Status of Problematic Accounts</i>	10% Reduction of Problematic Accounts	3.09% reduction in problematic accounts	10%
<i>Increase Gross Revenue</i>	* Php787.48 M Total Revenues	Php 611.91 M Gross Revenue	5%

Performance Indicators	2021		
	Targets	Accomplishments	Wt.
<i>Improve Budget Utilization Rate</i>	* Not Less Than 90% But Not More Than 100% of the GAA Allocation for SHFC's Programs	No chargeable SARO and NCA to SHFC's CY 2021 GAA	
Internal Process			
<i>Percentage of Loan Applications Processed within prescribed period</i>	* 100% Loan Applications Processed Within Prescribed Time	100% Loan Application Processed Within Prescribed Time (55 out of 55 loan applications were processed within 20 days)	10%
<i>Enhance Supports Systems for Effective and Efficient Processes</i>	* 100% Attainment of the 2020 Deliverables based on SHFC's DICT- Approved ISSP 2018-2020 ISSP 2022-2024 Approved by/ Submitted to DICT	Three (3) out of the three (3) deliverables in the DICT-Approved ISSP 2016-2020 were already implemented. (Budget Management System, MIS-Reportwriter Tool, MIS- Dashboard) ISSP 2022-2024 Approved by the Board on November, and Submitted to DICT ON December 2021	5%
Learning and Growth			
<i>Attain Quality Management Certification</i>	* Pass ISO Surveillance Audit (Head Office and 1 Regional Office) ISO Certification for two (2) Regional Branches	The Surveillance Audit for the Head Office and ISO 9001:2015 Certification Audit for the Regional Branch will be conducted in FY 2022	5%
<i>Improvement of the Competency of the Organization</i>	* Improvement in the Competency Baseline of the Organization	Competency Baseline increased by 2.01618% in 2021	5%

SCOPE OF AUDIT

Our audits covered the examination, on a test basis, of the accounts and financial transactions of the SHFC for the period January 1 to December 31, 2021 in accordance with the International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2021 and 2020. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

AUDITOR'S OPINION

We rendered an adverse opinion on the fairness of the presentation of the financial statements of the SFHC for the years ended December 31, 2021 and 2020 due to the Undistributed Collections (UC) under Other Payables account pertaining to payments of member beneficiaries which remained un-posted to the Mortgage Contracts Receivable (MCR) under Receivables account. This overstated both the Other Payables and Receivables accounts by P413.693 million and P452.252 million as at December 31, 2021 and 2020, respectively. Moreover, the account balances of the Investments of P55.000 million in 2021 and P940.233 million in 2020; Receivables, current of P2.239 billion in 2021 and P2.754 billion in 2020; Other Current Assets of P1.391 billion in 2021 and P701.326 million in 2020; Receivables, non-current of P17.455 billion in 2021 and P16.231 billion in 2020; and Other Non-Current Assets of P672.591 million in 2021 and P551.704 million in

2020 or a total of P21.813 billion and P21.179 billion as at December 31, 2021 and 2020, respectively, are misstated by undetermined amounts due to non-compliance to the provisions of (Philippine Financial Reporting Standards) PFRS 9 *Financial Instruments* requiring classification, measurement and impairment of the above-enumerated financial assets.

Further, the present value of expected payments to cover future retirement benefits of SHFC's employees are not measured, recognized and disclosed regularly in the books as benefit cost and benefit obligation, contrary to the requirement of Philippine Accounting Standard (PAS) 19 *Employee Benefits*, resulting in the understatement of both the Retirement Expense and Retirement Gratuity Payable accounts by undetermined amounts as at December 31, 2021 and 2020.

Furthermore, the requirements of PFRS 16 on *Leases* have not yet been applied on the leases of SHFC as at December 31, 2021 and 2020; thus, the assets and liabilities are both understated by undetermined amounts as at December 31, 2021 and 2020 for the non-recognition of ROUA and lease liabilities in the books. In addition, the balances of the related Retained Earnings of P7.758 billion in 2021 and P6.753 billion in 2020; Accumulated Depreciation of P200.599 million in 2021 and P180.508 million in 2020; Rent/Lease Expenses of P13.022 million in 2021 and P11.253 million in 2020; Depreciation Expenses of P20.090 million in 2021 and P19.151 million in 2020; and Interest Expenses of P0.700 million in 2021 and P1.911 million in 2020 are all misstated also by undetermined amounts, thereby affecting the fairness of presentation of the accounts in the financial statements.

For the above observations, we recommended that Management:

For undistributed collections

- a. Submit a work breakdown schedule and to post and allocate UC for CY 2020 and earlier by at least:
 - i. 60 per cent by the end of CY 2022
 - ii. 40 per cent by the end of CY 2023;
- b. For the current year collection lodged in UC, ensure posting at the end of the calendar year;
- c. Require the Information and Communication Technology Department to facilitate the enhancement of the database of High Density Housing Program MBs under migration and all other accounts not yet in the database; and
- d. Closely and constantly coordinate with the CAs and NHMFC on the submission of documents necessary in the reconciliation of the UC account.

For noncompliance with the requirements of PFRS 9 on Financial Instruments

- a. Make a representation to the Board of Directors to fast track the approval of the SHFC Accounting Manual and accordingly apply the policy on the proper classification, measurement and impairment of all financial instruments of SHFC; and
- b. Provide the disclosures required under PFRS 7 in the Financial Statements.

For noncompliance with PAS 19 on Employee Benefits

- a. Recognize in the books the present value of expected payments as expense and liability pursuant to PAS 19 to cover the future retirement benefits;
- b. Disclose in the Notes to Financial Statements pertinent and necessary information required under paragraph 135 of PAS 19 on Employee benefits; and
- c. Closely coordinate with an Actuary to facilitate 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.

For noncompliance with PFRS 16 on Leases

Facilitate the approval by the Board of Directors and subsequent implementation of the accounting policy that is compliant to the provisions of PFRS 16, including its disclosure requirements on SHFC's leases.

OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The balance of the Trust Fund amounting to P7.7 million received from the Department of Social Welfare and Development (DSWD) for the emergency shelter assistance of families whose houses were damaged by Typhoon Sendong was applied as loan amortization payment of member beneficiaries. This is not in accordance with the intended purpose provided in the Memorandum of Agreement (MOA) between DSWD and SHFC and is contrary to Section 4(3) and Section 84(2) of Presidential Decree (PD) No. 1445. This also defeats the objective of the trust fund to provide immediate assistance to intended beneficiaries at the earliest possible time.

We recommended that Management seek a written authority from the DSWD Secretary for the change in the purpose of the trust fund and modality of its distribution to the MBs as stipulated in the MOA. Otherwise, return the amount of P7.7 million to the DSWD.

2. The High Density Housing (HDH) Project for the Phase II (Site Development and Housing Construction) of a Community Association (CA) with a project cost of P222.705 million funded by the Department of the Interior and Local Government (DILG) Trust Fund was not completed within the scheduled date, contrary to the provisions of SHFC Corporate Circular No. 13-026 and Building Construction and Site Development Agreement and Notice to Proceed, depriving the intended 546 ISF-beneficiaries living in waterways and danger zones of decent and affordable housing, defeating the objectives of the Program and the possible non-recovery of funds invested in housing.

We recommended that Management:

- a. Institute measures to ensure timely completion of all projects such as:
 - Assign an engineer for each project who will monitor its timely completion within the agreed period as stated in the BCSDA to prevent additional loan funding or non-completion of the project; and

- Prospectively, devise a template to document the turn over of the project monitoring by the personnel assigned who was reshuffled to another department, to include, among others, the detailed list of documents and status of work to be reviewed and approved by their immediate supervisor to ensure continuity of work, and orderly and formal turnover.
 - b. Require the CA to implement the following remedies against the Contractor as provided in Article XIV of the BCSDA:
 - Give a written notice to the Contractor to proceed with the work and to perform what is in the agreement; and
 - If the Contractor fails to perform the work within seven days from receipt of the written notice, the CA and SHFC shall have the option to proceed against the bond and enter the premises and employ another contractor to complete the work at the expense of Contractor A.
 - c. Require the CA to compute for and demand the payment of liquidated damages from the Contractor, pursuant to Article XII of the BCSDA;
 - d. Submit to the Audit Team updated Accomplishment Report of the Contractor duly validated by the Department of Engineering of SHFC; and
 - e. Require the Contractor to submit to the HDH Team in charge of the Project the documentation on the renewal of the performance bond as protection of SHFC from concerns such as contractors being insolvent before finishing the contract.
3. The lands costing P43.036 million for the Marawi site development housing projects turned over and awarded to the home partners/beneficiaries are not yet supported with Transfer Certificate of Titles (TCT) registered in the name of SHFC, contrary to Marawi Shelter Project (MSP) Corporate Circular No. 19-001, resulting in the delay of the individualization of titles and the risk of loss of funds invested in housing in case of third-party claimants.

We recommended that Management:

- a. Facilitate the transfer of the ownership of the land to SHFC to hasten the individualization of the titles in the name of the qualified home partners/beneficiaries;
- b. Enhance the policy on the Guidelines on Marawi Shelter Project by providing timeline within which the landowner/seller shall comply to the requirements stated in MSP Circular No. 19-001; and
- c. As part of due diligence for future purchases of lot intended for housing projects, ensure that the lot being purchased is properly inspected particularly the boundaries of the lots to prevent third party claimants.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES, AND CHARGES

The balance of disallowances amounting to P76,468,812 consists of the balances of (a) ND No. 2019-01(2018) amounting to P5,280,000, (b) ND No. 2017-01-CIB-TD amounting to P71,030,479, and (c) ND 2016-01 (2014) and ND 2015-04 (2014) amounting to P158,333 as at December 31, 2021. There were no Notices of Suspension and Charge issued during the year.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 58 audit recommendations for both SHFC and AKPF embodied in the CY 2020 Annual Audit Report, 25 were fully implemented, 27 were partially implemented of which 10 were reiterated in Part II of this Report, and six were reconsidered.

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LIST OF ACRONYMS

ABC	Approved Budget for the Contract
AHT	Assets Held in Trust
AKPF	Abot-Kaya Pabahay Fund
AO	Administrative Order
AOC	Abstract of Collections
BAC	Bids and Awards Committee
BCSDA	Building Construction and Site Development Agreement
BOT	Board of Trustees
BR	Board Resolution
BSP	Banko Sentral ng Pilipinas
CA	Community Associations
CAD	Corporate Accounts Division
CAIS	Community Association Information System
CAs	Community Associations
CMP	Community Mortgage Program
CNAS	Certificate of Non-Availability of Stock
CO	Capital Outlay
COA	Commission on Audit
CPSE	Commercial Public Sector Entity
CREATE	Corporate Recovery and Tax Incentives for Enterprises
CSE	Common-used Supplies and Equipment
DBM	Department of Budget and Management
DBM-PS	Department of Budget and Management - Procurement Service
DCRs	Daily Collection Reports
DHSUD	Department of Human Settlements and Urban Development
DILG	Department of Interior and Local Government
DOTr	Department of Transportation
DRRM	Disaster Risk Reduction and Management
DSWD	Department of Social Welfare and Development
ECL	Expected Credit Losses
EO	Executive Order
ESA	Emergency Shelter Assistance
FRSC	Financial Reporting Standards Council
FVPL	Fair Value Through Profit and Loss
GAD	Gender and Development
GCs	Government Corporations
GFI	Government Financial Institutions
GMMS	Gender Mainstreaming Monitoring System
GOCC	Government Owned and/or Controlled Corporation
GPB	Gender and Development Plan and Budget
GPPB	Government Procurement Policy Board
GSIS	Government Service Insurance System
HDHP	High Density Housing Program
HOA	Home Owners Association
HoPE	Head of the Procuring Entity
HUDCC	Housing and Urban Development Coordinating Council
IASB	International Accounting Standards Board
ICTD	Information and Communication Technology Department
IIRUP	Inventory and Inspection Report of Unserviceable Property

LIST OF ACRONYMS

IP	Investment property
ISF	Informal Settler Families
LCMP	Localized Community Mortgage Program
LGUs	Local Government Units
LHIAC	Local Housing Inter-Agency Committee
LIR	Loans Installment Receivable
LPA	Lease Purchase Agreement
MBs	Member Beneficiaries
MCIT	Minimum Corporate Income Tax
MCR	Mortgage Contract Receivable
MGB	Mines and Geo-sciences Bureau
MMRBs	Micro Medium Rise Buildings
MOA	Memorandum of Agreement
MOOE	Maintenance and Other Operating Expenses
MOU	Memorandum of Understanding
MRI	Mortgage Redemption Insurance
MRRRP	Marawi Recovery, Rehabilitation and Reconstruction Program
MSP	Marawi Shelter Project
NCR	National Capital Region
NDRRM	National Disaster Risk Reduction and Management
NGAs	National Government Agencies
NGOs	Non-Government Organizations
NHMFC	National Home Mortgage Finance Corporation
NTFS	Notes to Financial Statements
OCD	Office of Civil Defense
PAS	Philippine Accounting Standards
PB	Performance Bond
PD	Presidential Decree
PE	Property and Equipment
PFRS	Philippine Financial Reporting Standards
PIC	Philippine Interpretations Committee
POs	People's Organizations
RA	Republic Act
RCA	Revised Chart of Accounts
RCI	Report of Checks Issued
RD	Register of Deeds
REUs	Regional Extension Units
RIRR	Revised Implementing Rules and Regulations
ROUA	Right-of-Use Asset
RR	Revenue Regulations
SCI	Statement of Comprehensive Income
SEC	Securities and Exchange Commission
SHFC	Social Housing Finance Corporation
SFP	Statement of Financial Position
SPAs	Statement of Payment and Applications
SSS	Social Security System
SUCs	State Universities and Colleges
TCT	Transfer Certificate of Title
UC	Undistributed Collections

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

Adverse 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, 2021 and 2020, 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, because of the significance of the matters discussed in the *Bases for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly the financial position of SHFC as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Bases for Adverse Opinion

The Undistributed Collections (UC) under Other Payables account pertaining to payments of member-borrowers remained un-posted to the Mortgage Contracts Receivable (MCR) under Receivables account. This overstated both the Other Payables and Receivables accounts by P413.693 million and P452.252 million as at December 31, 2021 and 2020, respectively. Moreover, the account balances of the Investments of P55.000 million in 2021 and P940.233 million in 2020; Receivables, current of P2.239 billion in 2021 and P2.754 billion in 2020; Other Current Assets of P1.391 billion in 2021 and P701.326 million in 2020; Receivables, non-current of P17.455 billion in 2021 and P16.231 billion in 2020; and Other Non-Current Assets of P672.591 million in 2021 and P551.704 million in 2020 or a total of P21.813 billion and P21.179 billion as at December 31, 2021 and 2020, respectively, are misstated by undetermined amounts due to non-compliance to the provisions of PFRS 9 *Financial Instruments* requiring classification, measurement and impairment of the above-enumerated financial assets.

Further, the present value of expected payments to cover future retirement benefits of SHFC's employees are not measured, recognized and disclosed regularly in the books as benefit cost and benefit obligation, contrary to the requirement of PAS 19 *Employee Benefits*, resulting in the understatement of both the Retirement Expense and Retirement Gratuity Payable accounts by undetermined amounts as at December 31, 2021 and 2020.

Furthermore, the requirements of PFRS 16 *Leases* have not yet been applied on the leases of SHFC as at December 31, 2021, thus, the asset and liabilities are both understated by undetermined amounts as at December 31, 2021 and 2020 for the non-recognition of Rights-of-Use of Assets and lease liabilities in the books. In addition, the account balances of the related Retained Earnings of P7.758 billion in 2021 and P6.753 billion in 2020; Accumulated Depreciation of P200.599 million in 2021 and P180.508 million in 2020; Rent/Lease Expenses of P13.022 million in 2021 and P11.253 million in 2020; Depreciation Expenses of P20.090 million in 2021 and P19.151 million in 2020; and Interest Expenses of P0.700 million in 2021 and P1.911 million in 2020 are all misstated also by undetermined amounts thereby affecting the fairness of presentation of the accounts in the financial statements.

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

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

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 33 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. Because of the significance of the matters described in the *Bases for Adverse Opinion* section of our report, it is inappropriate to, and we do not express an opinion on the supplementary information referred to above.

COMMISSION ON AUDIT


CELIA L. NAZARENO
OIC-Supervising Auditor

March 10, 2022



Kaagapay ng Komunidad sa Maginhawang Pamumuhay



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, 2021 and December 31, 2020 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of 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


ATTY. JUNELLE G. PAYOT
Executive Vice President


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

March 10, 2022

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly-owned Subsidiary of the National Home Mortgage Finance Corporation)
STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020
(In Philippine Peso)

	Note	2021	2020
ASSETS			
Current Assets			
Cash and cash equivalents	4	4,859,964,897	4,792,548,883
Investments	5	164,990,000	1,060,232,808
Receivables	6	2,239,245,511	2,753,940,955
Inventories	7	9,113,793	7,199,202
Other current assets	8	1,391,422,427	701,326,088
		8,664,736,628	9,315,247,936
Non-Current Assets			
Receivables, net	6	17,356,215,480	16,144,502,009
Investment property	9	2,275,373,328	2,023,426,873
Property and equipment	10	201,864,466	194,182,337
Intangible assets	11	11,409,518	10,525,542
Deferred tax assets	25	109,165,683	108,842,450
Other non-current assets	12	672,590,989	551,704,454
		20,626,619,464	19,033,183,665
TOTAL ASSETS		29,291,356,092	28,348,431,601
LIABILITIES AND EQUITY			
Current Liabilities			
Financial liabilities	13	1,083,856,593	1,106,776,267
Inter-agency payables	14	51,466,116	31,211,491
Income tax payable	25	2,535,731	2,741,973
Trust liabilities	15	4,791,168	4,715,710
Deferred credits/unearned income	16	217,941,932	225,135,120
Other payables	17	1,405,962,950	1,540,010,887
		2,766,554,490	2,910,591,448
Non-Current Liabilities			
Financial liabilities	13	2,004,452	5,583,910
Trust liabilities	15	18,755,165,551	18,668,886,609
		18,757,170,003	18,674,470,519
TOTAL LIABILITIES		21,523,724,493	21,585,061,967
Capital stock	18.1	10,000,000	10,000,000
Retained earnings	18.2	7,757,631,599	6,753,369,634
TOTAL EQUITY		7,767,631,599	6,763,369,634
TOTAL LIABILITIES AND EQUITY		29,291,356,092	28,348,431,601

The Notes on pages 9 to 50 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, 2021 and 2020
(In Philippine Peso)

	Note	2021	2020
INCOME			
Service and business income	19	619,711,575	416,659,691
		619,711,575	416,659,691
EXPENSES			
Personnel services	20	268,685,517	280,443,669
Maintenance and other operating expenses	21	297,120,452	303,611,843
Non-cash expenses	22	34,561,716	27,033,572
Financial expenses	23	793,639	3,161,787
		601,161,324	614,250,871
INCOME/(LOSS) FROM OPERATIONS			
Other non-operating income	24	23,632,908	(197,591,180)
		23,632,908	66,670,142
PROFIT/(LOSS) BEFORE TAX		42,183,159	(130,921,038)
INCOME TAX EXPENSE/(BENEFIT)			
Current	25.1	6,197,116	8,333,194
Deferred	25.2	(323,233)	(63,037,169)
		5,873,883	(54,703,975)
PROFIT/(LOSS) AFTER TAX			
Net assistance/subsidy income from National Government	26	985,958,563	(76,217,063)
		985,958,563	427,766,158
NET INCOME/COMPREHENSIVE INCOME		1,022,267,839	351,549,095

The Notes on pages 9 to 50 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, 2021 and 2020
(In Philippine Peso)

	Capital Stock	Retained Earnings	Total Equity
	18.1	18.2	
Balance as at January 1, 2021	10,000,000	6,753,369,634	6,763,369,634
Prior period adjustments	0	1,816,782	1,816,782
Restated balance as at January 1, 2021	10,000,000	6,755,186,416	6,765,186,416
Net income for the year	0	1,022,267,839	1,022,267,839
Dividends for CY2021	0	(19,822,656)	(19,822,656)
Balance as at December 31, 2021	10,000,000	7,757,631,599	7,767,631,599
Balance as at January 1, 2020	10,000,000	6,449,646,514	6,459,646,514
Prior period adjustments	0	(47,825,975)	(47,825,975)
Restated balance as at January 1, 2020	10,000,000	6,401,820,539	6,411,820,539
Net income for the year	0	351,549,095	351,549,095
Balance as at December 31, 2020	10,000,000	6,753,369,634	6,763,369,634
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 as at December 31, 2021		1,312,646,321	

The Notes on pages 9 to 50 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, 2021 and 2020
(In Philippine Peso)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows		
Collection of income/revenue	997,779,846	757,255,848
Receipt of assistance/subsidy	1,005,285,424	430,525,526
Trust receipts	75,459	6,153,199
Collection of receivables	7,914,692	3,888,818
Receipt of inter-agency fund transfers	116,343,598	2,191,204
Other receipts	593,711	19,041,540
Total cash inflows	2,127,992,730	1,219,056,135
Cash outflows		
Release of funds for mortgage contracts	(1,867,021,584)	(1,186,803,718)
Payment of expenses	(658,556,759)	(407,823,062)
Refund of deposits	(3,615,593)	(838,444)
Remittance of personnel benefit contributions and mandatory deductions	(27,656,356)	(61,164,543)
Payment for prepaid expenses	(116,138,212)	(84,664,788)
Purchase of inventories	(17,466,106)	(7,729,273)
Grant of cash advances	(4,370,966)	(7,245,255)
Release of inter-agency fund transfers	(2,339,785)	(47,040,470)
Other disbursements	(1,255,334)	(1,268,853)
Total cash outflows	(2,698,420,695)	(1,804,578,406)
Net cash used in operating activities	(570,427,965)	(585,522,271)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows		
Proceeds from matured investments/redemption of long-term investments/return on investments	1,712,334,808	5,126,744,209
Receipt of interest earned	32,788,947	67,878,692
Total cash inflows	1,745,123,755	5,194,622,901
Cash outflows		
Purchase of investments	(817,092,000)	(4,583,081,814)
Purchase of land as investment property	(242,134,968)	(233,733,315)
Purchase/construction of property and equipment	(10,884,550)	(7,780,508)
Purchase of intangible assets	(2,437,480)	(1,787,000)
Grant of loans	(4,315)	(500,000)
Total cash outflows	(1,072,553,313)	(4,826,882,637)
Net cash provided by investing activities	672,570,442	367,740,264
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash outflows		
Payment of financial expenses for technical assistance	(20,373,506)	(3,336,107)
Payment of long-term liabilities	(13,466,798)	(13,610,868)
Payment of interest on loans and other financial charges	(886,159)	(2,157,333)
Payment of cash dividends	0	(109,629,708)
Total cash outflows	(34,726,463)	(128,734,016)
Net cash used in financing activities	(34,726,463)	(128,734,016)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	67,416,014	(346,516,023)
Cash and cash equivalents at beginning of the year	4,792,548,883	5,139,064,906
CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 4)	4,859,964,897	4,792,548,883

The Notes on pages 9 to 50 form part of these financial statements.

SOCIAL HOUSING FINANCE CORPORATION
(A Wholly Owned Subsidiary of National Home Mortgage Finance Corporation)
NOTES TO FINANCIAL STATEMENTS
(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, now Republic Act No. 11232 of the Revised Corporation Code of the Philippines, 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 branch line (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.

A Memorandum of Understanding (MOU) was executed between the United Nations Human Settlements Programme (UN-Habitat), and the SHFC, where the parties agreed to collaborate in the shelter and community recovery programme in response to the Marawi Siege of 2017 under the “Project for Rebuilding Marawi through Community-Driven Shelter and Livelihood support” which is being supported by People of Japan. The Rebuilding Marawi Shelter Livelihood Recovery Project supports people displaced by Marawi conflict in the rebuilding of resilient and peace-promotive shelter, livelihood and community infrastructure. One thousand five hundred (1,500) core shelters will be built for identified home partners organized under the project of the United Nations Human Settlements Programme (UN Habitat) and the SHFC.

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 accompanying financial statements were approved and authorized for issue by SHFC’s Board of Directors (BOD).

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 Commercial Public Sector Entity (CPSE), 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.

SHFC has formulated policies/guidelines for the assessment, classification, measurement and recognition of “Right-of-Use” Asset (ROUA) and a lease liability on the adoption of PFRS 16 on Leases but is pending approval by the Board of Directors.

SHFCs accounting framework is designed to provide clear and reliable information regarding the achievement of its operational objectives, compliant with the applicable PFRSs.

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 follows.

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 2021 and 2020. General Ledger and Subsidiary Ledger accounts were diligently analyzed and manually mapped to the RCA.

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, PFRS 16 to its leases, and PAS 19 to its retirement benefit plan, thus, cannot disclose the impact on the non-adoption to its financial statements.

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 PFRSs

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2021. SHFC has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

a. Effective in 2021 that are relevant to SHFC:

(i) Amendment to PFRS 16, COVID-19-related Rent Concessions beyond 30 June 2021

The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

(ii) Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, Interest Rate Benchmark Reform - Phase 2

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Corporation is required to disclose information about:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

b. New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2021

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, SHFC does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. SHFC intends to adopt the following pronouncements when they become effective.

(i) Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
 - Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*
 - Annual Improvements to PFRSs 2018-2020 Cycle
 - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
 - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
 - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*
- (ii) *Effective beginning on or after January 1, 2023*
- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
 - Amendments to PAS 8, *Definition of Accounting Estimates*
 - Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*
- (iii) *Effective beginning on or after January 1, 2024*
- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- (iv) *Effective beginning on or after January 1, 2025*
- PFRS 17, *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 address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in the PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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 Fair Value Through Other

Comprehensive Income (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 for doubtful accounts (now referred to as impairment).

SHFC derecognizes a financial asset only when: a) the contractual rights to the cash flows from the financial asset expire or are settled, or b) the Corporation transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Corporation, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Corporation derecognizes the asset and recognizes its rights and obligations retained or created in the transfer.

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 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 reporting 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 10 and 11, respectively. Based on Management's assessment as at December 31, 2021 and 2020, 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, 2021 and 2020 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 25.

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2021	2020
Cash on hand		
Cash – collecting officers and supervising tellers	3,082,828	5,285,271
Petty cash	1,516,776	1,317,994
Cash in bank	4,765,355,293	4,635,945,618
Time deposits – local currency	90,010,000	150,000,000
	4,859,964,897	4,792,548,883

- 4.1 *Cash collecting officers/supervising tellers* pertains to cash collections by the collecting officers and supervising tellers on the last working day of the year which are deposited only on the first working day of the succeeding year.
- 4.2 *Petty cash* pertains to fund established to defray immediate or emergency *petty* expenses at the Head and Regional/Satellite Offices.
- 4.3 *Cash in bank* consists of funds deposited with government banks for payroll, corporate operating funds, Take-Out Funds, High Density Housing (HDH) Program, PNR South Commuter Project (DOTr Project), National Disaster Risk Reduction and Management (NDRRM) Funds for Marawi Shelter Projects and Intramuros resettlement project. Cash in bank earns interest 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.
- 4.4 *Time deposits - local currency* 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. INVESTMENTS

This account consists of:

	2021	2020
Investment in Treasury Bills	50,000,000	940,232,808
Investment in Time Deposits	109,990,000	120,000,000
Other Investments	5,000,000	0
	164,990,000	1,060,232,808

- 5.1 *Investment in Treasury Bills* consists of long-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.
- 5.2 *Investments in Time Deposits* represents time deposits in local currency which are highly liquid investments with maturity of more than 91 days from date of placements.

5.3 *Other Investments* represents Investment Securities at Amortized Cost- Legal Liability Insurance Fund which will be used for the funding of insurance claims.

6. RECEIVABLES

This account consists of:

	2021	2020
Current:		
Mortgage contract receivable	2,138,976,718	2,632,156,348
Due from parent corporation	59,447,575	59,447,575
Due from other funds – AKPF	3,775,139	24,467,305
Interest receivable	2,340,834	11,177,329
Due from government corporations	14,797,880	10,074,025
Due from NGAs	16,343,779	8,181,113
Loans receivable	2,903,200	7,766,485
Due from officers and employees	303,156	546,082
Due from provident fund	198,896	124,693
Receivables – disallowances/charges	158,334	0
	2,239,245,511	2,753,940,955
Non-current:		
Mortgage contract receivable	16,979,139,973	15,807,343,570
Assets held in trust (AHT) – insurance receivables	442,838,607	390,468,431
Unamortized mortgage origination cost	19,728,357	21,002,547
Loans receivable	12,492,464	12,175,557
Assets held in trust (AHT) – interest receivables	433,095	433,095
	17,454,632,496	16,231,423,200
Less: Allowance for impairment	98,417,016	86,921,191
	17,356,215,480	16,144,502,009

6.1 *Mortgage contract receivable (MCR)*

	2021	2020
Current	2,138,976,718	2,632,156,348
Non-current		
Past due - High Density Housing (HDH)	4,516,793,044	4,750,631,331
Past due - Community Mortgage Program (CMP)	11,668,784,167	10,209,803,850
Restructured interest – bearing principal	573,299,308	615,004,906
Restructured – noninterest – bearing principal	169,338,097	180,958,126
Items in litigation	50,925,357	50,925,357
	16,979,139,973	15,807,343,570
Less: Allowance for impairment	98,417,016	86,921,191
Non-current, net	16,880,722,957	15,720,422,379
	19,019,699,675	18,352,578,727

- a. Current – This account amounting to P2.139 billion and P2.632 billion as at December 31, 2021 and 2020, respectively, includes CMP taken-out projects from the time of transfer up to the end of each year.

- b. Past due – HDH – The amount of P4.517 billion and P4.751 billion as at December 31, 2021 and 2020, 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 – CMP – The account amounting to P11.669 billion and P10.210 billion as at December 31, 2021 and 2020, respectively, represents the past due portion of the loan at the time of transfer up to December 31, 2021. 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 (CAs) ledgers 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 P573.299 million and P615.005 million as at December 31, 2021 and 2020, respectively, refers to the accounts of delinquent borrowers who availed of the Restructuring Program offered by SHFC, in accordance with 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 P169.338 million and P180.958 million as at December 31, 2021 and 2020, respectively, refers to loans with unpaid interests availed by delinquent borrowers who also availed the Restructuring Program offered by SHFC. (See Note 16.1)
- f. Items in litigation – This account amounting to P50.925 million as at December 31, 2021 and 2020 represent the outstanding balance of receivables from delinquent CAs transferred to the Legal Department for foreclosure and with petitions already filed in court. Said outstanding balance is the original amount transferred from NHMFC.

6.2 Allowance for impairment

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

	Balance, January 1, 2021	Additional Provision	Recovery/ Reversal	Balance, December 31, 2021
Mortgage contracts receivable				
Current accounts	6,278,237		(930,795)	5,347,442
Past due accounts				
Over 3 months – 12 months	8,589,727	685,130	0	9,274,857
Over 12 months – 3 years	12,072,360	10,507,078	0	22,579,438
(Forward)				
Over 3 years	55,285,703	1,234,412	0	56,520,115

	Balance, January 1, 2021	Additional Provision	Recovery/ Reversal	Balance, December 31, 2021
Items in litigation	4,695,164	0	0	4,695,164
	86,921,191	12,426,620	(930,795)	98,417,016

6.3 Due from parent corporation

This account includes CMP amortization payments and other collections amounting to P16.432 million received from the borrowers who still pay at NHMFC for account of SHFC.

Also, this account comprises among others, management fee and collection servicing fee amounting to P43.015 million computed pursuant to the provision under Section VI of the Trust Agreement entered into by and between NHMFC and SHFC.

6.4 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.

6.5 Interest receivable

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

6.6 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, now Department of Human Settlements and Urban Development (DHSUD), 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.

6.7 Due from national government agencies (NGAs)

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

Department of Transportation (DOTr) – This account pertains to all expenses incurred for the DOTr projects charged against SHFC corporate funds.

6.8 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.

6.9 Due from provident fund

This refers to the receivables from resigned/retired employees due to their negative last pay that will be deducted from the proceeds of their provident fund contributions.

6.10 Assets held in trust (AHT) – Insurance receivables

This consists of the general ledger account 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 CAs. The balance reduces upon collection of insurance repayments from MBs which can be determined only upon proper posting of amortization payments to the MBs' ledgers.

6.11 Unamortized mortgage origination cost

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

6.12 Loans receivable

This represents the car and calamity loans availed by SHFC officers and employees in the amounts of P14.762 million and P0.633 million as at December 31, 2021 and P19.309 million and P0.633 million as at December 31, 2020, respectively, which are payable in 10 years.

	2021	2020
Current		
Car loan	2,269,815	7,133,100
Calamity loan	633,385	633,385
	2,903,200	7,766,485
Non-current		
Car loan	12,492,464	12,175,557
	15,395,664	19,942,042

6.13 Assets held in trust (AHT) – Interest receivables

This refers to the uncollected interest earned from the transferred NHMFC accounts.

7. INVENTORIES

This account consists of:

	2021	2020
Inventory held for consumption		
Office supplies inventory	1,551,694	1,224,642
Accountable forms, plates and stickers	491,175	340,105
Drugs and medicines inventory	18,278	19,052
Other supplies and materials inventory	124,173	121,298
Semi-expendable furniture and fixtures	2,616,538	1,984,766
Semi-expendable office equipment	1,612,203	1,216,327
Semi-expendable IT equipment	884,412	716,172
Semi-expendable other machinery and equipment	1,639,997	1,408,297
Semi-expendable communication equipment	168,741	161,961
Semi-expendable books	6,582	6,582
	9,113,793	7,199,202

8. OTHER CURRENT ASSETS

The account consists of:

	2021	2020
Advances to Community Associations	752,949,884	0
Advances to contractors	597,598,033	613,009,860
Guaranty deposits	3,829,125	3,409,233
Advances to Special Disbursing Officer	1,699,192	1,304,782
Prepayments	2,209,615	1,096,648
Other deposits	33,136,578	82,505,565
	1,391,422,427	701,326,088

8.1 Advances to CAs

This refers to the payments of Heirs Bond, Estate Taxes and Transfer taxes to the BIR, and registration fees with the Registry of Deeds.

8.2 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.

8.3 Guaranty deposits

This account represents guaranty fees for SHFC's rental of Regional Offices and warehouse.

8.4 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.

8.5 Prepayments

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

8.6 Other deposits

This account includes 20 per cent down payment for the properties to be acquired from the Bangko Sentral ng Pilipinas (BSP) amounting to P14.392 million and P79 million as at December 31, 2021 and 2020, respectively, and also includes checks amounting to P18.744 million and P1.879 million as at December 31, 2021 and 2020, respectively, to be released to the suppliers upon delivery of goods purchased.

9. INVESTMENT PROPERTY

The account balances amounting to P2.275 billion and P2.023 billion as at December 31, 2021 and 2020, respectively, represent land acquired for building construction and site development for the 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 in 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 ISFs Housing Program for the relocation of ISFs 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 in 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, 2021	201,330,000	28,561,859	3,929,991	78,529,663	21,866,718	40,472,588	374,690,819
Additions	0	6,162,721	35,500	15,311,038	6,263,309	0	27,772,568
December 31, 2021	201,330,000	34,724,580	3,965,491	93,840,701	28,130,027	40,472,588	402,463,387
Accumulated Depreciation							
January 1, 2021	(93,586,819)	(16,922,938)	(2,002,546)	(46,236,591)	0	(21,759,588)	(180,508,482)
Depreciation	(6,781,868)	(1,689,705)	(221,898)	(8,534,004)	0	(2,862,964)	(20,090,439)
December 31, 2021	(100,368,687)	(18,612,643)	(2,224,444)	(54,770,595)	0	(24,622,552)	(200,598,921)
Net Book Value							
December 31, 2021	100,961,313	16,111,937	1,741,047	39,070,106	28,130,027	15,850,036	201,864,466

	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, 2020	201,330,000	27,356,904	3,995,230	71,629,507	15,996,144	27,503,788	347,811,573
Adjustments	0	0	(97,989)	(31,999)	0	0	(129,988)
Additions	0	1,204,955	32,750	6,932,155	5,870,574	12,968,800	27,009,234
December 31, 2020	201,330,000	28,561,859	3,929,991	78,529,663	21,866,718	40,472,588	374,690,819
Accumulated Depreciation							
January 1, 2020	(86,804,951)	(15,302,640)	(1,855,072)	(38,667,117)	0	(18,844,111)	(161,473,891)
Adjustments	0	0	88,190	28,012	0	0	116,202
Depreciation	(6,781,868)	(1,620,298)	(235,664)	(7,597,486)	0	(2,915,477)	(19,150,793)
December 31, 2020	(93,586,819)	(16,922,938)	(2,002,546)	(46,236,591)	0	(21,759,588)	(180,508,482)
Net Book Value							
December 31, 2020	107,743,181	11,638,921	1,927,445	32,293,072	21,866,718	18,713,000	194,182,337

11. INTANGIBLE ASSETS

The details of this account are shown below:

	2021	2020
Cost		
Balances at beginning of year	18,682,497	8,149,129
Additions	2,437,480	10,533,368
Balances at end of year	21,119,977	18,682,497
Accumulated amortization		
Balances at beginning of year	(8,156,955)	(6,874,105)
Amortization	(1,553,504)	(1,282,850)
Balances at end of year	(9,710,459)	(8,156,955)
Net book value at end of year	11,409,518	10,525,542

This includes capitalized cost of operating systems, anti-virus programs, etc., recorded as computer software programs for use in the SHFC operations.

12. OTHER NON-CURRENT ASSETS

The account consists of:

	2021	2020
Trust Asset - AKPF	548,294,396	551,704,454
Government grant - Marawi Shelter Program	124,296,593	0
	672,590,989	551,704,454

12.1 *Trust Asset - AKPF* 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 on said account, as a result of its operations, are taken up as credit and debit to *Trust Assets and Liabilities* account. (See Note 15)

The details of the Fund balance amounting to P548.294 million and P551.704 million as at December 31, 2021 and 2020, respectively.

	2021	2020
Cash and cash equivalents	291,236,938	315,220,410
Receivable – current	2,508,360	2,690,442
Receivable – non – current	67,441,124	67,441,124
Property and equipment, net	105,085	129,261
Other non-current assets	197,635,751	196,142,840
Intra-agency payables	(3,775,140)	(23,255,262)
Inter-agency payables	(6,339,327)	(6,221,823)
Other payables	(518,395)	(442,538)
	548,294,396	551,704,454

12.2 *Government grant - Marawi Shelter Program* refers to the fund sourced from the National Disaster Risk Reduction Management (Calamity Fund) for the Marawi Recovery, Rehabilitation and Reconstruction Program (MRRRP) to cover the acquisition of land for the Marawi Shelter Project (Phases I & II), site development and construction of the retaining wall for the purpose of relocating 1,500 families.

13. FINANCIAL LIABILITIES

This account consists of:

	2021	2020
Current:		
Accounts payable	1,017,508,203	1,029,143,451
Insurance/reinsurance premium payable	61,366,301	58,167,755
Loans payable - domestic	3,865,062	18,179,242
Tax refund payable	0	1,198,465
Due to officers and employees	1,117,027	87,354
	1,083,856,593	1,106,776,267
Non-current:		
Loans payable – domestic	2,004,452	5,583,910
	1,085,861,045	1,112,360,177

13.1 Accounts payable

This refers mainly to the remaining 50 per cent of CMP loan proceeds and origination fees retained by SHFC pending compliance with other requirements amounting to P987.763 million and P1,008.394 billion as at December 31, 2021 and 2020, respectively. 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 P29.745 million and P20.749 million as at December 31, 2021 and 2020, respectively.

13.2 Insurance/Reinsurance premium payable

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

13.3 Loans payable – domestic

This account amounting to P5.869 million and P23.763 million for the years 2021 and 2020 represents the costs of the office building, parking space and other structures acquired from BSP. (See Note 16.2)

13.4 Tax refund payable

This account represents the refund of excess tax withheld on the salaries of employees.

14. INTER-AGENCY PAYABLES

This account consists of:

	2021	2020
Due to parent corporation (NHMFC)	40,584,547	18,867,978
Due to BIR	8,859,322	9,167,417
Due to Treasurer of the Philippines	1,293,230	2,445,329
Due to Pag-IBIG	357,532	389,610
Due to SSS	221,216	189,797
Due to Philhealth	150,269	151,360
	51,466,116	31,211,491

14.1 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.

14.2 Due to BIR

This account represents the taxes withheld from payment of employees' compensation, origination fees, honoraria, taxes withheld at source and from government money payments.

14.3 Due to Treasurer of the Philippines

This account represents the interest income on deposits (net of tax) earned from the DOTr and DILG Funds to be remitted to the Bureau of the Treasury after the closing of the year-end financial statements as provided in the Memorandum of Agreement between SHFC and DOTr/DILG.

15. TRUST LIABILITIES

The account consists of:

	2021	2020
Current:		
Performance warranty	4,287,772	4,212,314
Bidders' bonds	503,396	503,396
	4,791,168	4,715,710
Non-current:		
NHMFC	14,756,822,155	14,756,822,155
DOTr	3,000,000,000	3,000,000,000
AKPF (See Note 12)	548,294,396	551,704,454
Other trust liabilities	450,049,000	360,360,000
	18,755,165,551	18,668,886,609

15.1 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 MCR – past due account. Details of this account as at December 31, 2021 are as follows:

Particulars	Amount
Cash	(2,947,730,096)
Loans installment receivable	13,751,470,964
Past due loan installment receivables	2,750,042,775
Retained earnings balance for transfer to NHMFC	428,010,179
Land	638,298,293
Notes receivable – National Housing Authority	200,000,000
Interest income	165,678,128
Advances to contractors	420,992,618
Origination and appraisal cost	166,642,635
Insurance receivable	119,762,108
Interest receivables	72,873,957
Items in litigation	50,925,357
Unamortized mortgage origination cost	50,479,961
Origination fee payable	18,444,963
Service fee incentives	5,648,600
Technical subsidy	2,770,247
Other professional fees	3,500
Accounts payable – MCR	(808,937,350)
Undistributed collections	(150,012,482)
Guaranty deposits payable	(147,250,222)
Insurance payable	(5,189,361)
Real estate taxes	11,109
Due to BIR (Withholding tax payable)	(4,135,522)
Advances from borrowers	(1,598,646)
Other deposits	(19,286,991)
Performance warranty payable	(1,092,569)
	14,756,822,155

The corresponding fund for the Comprehensive and Integrated Shelter Financing Act (CISFA) of 1994 amounting to P12.775 billion was fully released by DBM through NHMFC on 2017. The trust liability account resulted to negative cash

balance amounting to P2.947 billion after the exhaustion of the CISFA fund received from NHMFC. The subsequent CMP loan take-outs are now sourced from SHFC's corporate fund.

In December 31, 2021, DBM released P325 million budgetary support directly to SHFC to cover the implementation of CMP. This, however, will not form part of the trust liability since it was recorded as subsidy income from national government.

On the other hand, no additional trust liability is recognized since no dividends were declared by the Board on the share of NHMFC on the net income.

15.2 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. Management had already acquired BSP Property located in Carissa Homes, Tanza Cavite as one resettlement area for MBs affected by the project.

15.3 Other trust liabilities

This account pertains to the funds received by SHFC from the following government agencies:

- a. *Trust fund - Department of the Interior and Local Government (DILG)* amounting to P350 million refers to the fund held in trust per Trust Agreement entered into by and between the DILG and SHFC on June 27, 2016 intended for HDHP projects which was deposited and maintained in a separate fund account (HDHP II) in order not to co-mingle with other funds. The construction of ALPAS 2 project is still ongoing, while the Jess Robredo Housing Project is still under negotiation between the HOA and the Contractor on the contract amount.
- b. *Trust fund – Intramuros Administration* amounting to P100.049 million refers to fund held in trust in 2021 for the relocation and resettlement of more or less five hundred (500) duly identified and qualified dweller-families in Intramuros.
- c. *Trust Fund – Department of the Social Welfare and Development (DSWD)* amounting to P10.360 million refers to the fund received on July 01, 2016 from the Emergency Shelter Assistance Program of DSWD earmarked for the 148 ISF victims of typhoon Sendong in Cagayan de Oro City to be used solely for the purchase of housing materials. The P7.7 million portion of the fund was already utilized as payment to loan amortization of beneficiaries while the remaining unused balance of P2.660 million was returned/refunded to the DSWD under Official Receipt No. 9334585 dated June 1, 2021

16. DEFERRED CREDITS/UNEARNED INCOME

This account consists of:

	2021	2020
Deferred income	169,196,547	180,816,576
Deferred credits	48,745,385	44,318,544
	217,941,932	225,135,120

16.1 Deferred income

This account pertains to the interest as of date of application for restructured loans which are payable within a period of 30 years. (See Note 6.1)

16.2 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. (See Note 13)

17. OTHER PAYABLES

This account consists of:

	2021	2020
Undistributed collections	413,693,000	452,251,959
Other payables	905,394,359	1,021,428,438
Leave benefits payable	46,776,159	44,899,849
Retirement gratuity payable	20,276,776	21,430,641
Dividends payable (See Note 18.2)	19,822,656	0
	1,405,962,950	1,540,010,887

17.1 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:

	2021	2020
Un-posted amortization payments from remedial accounts	114,532,286	130,574,304
Un-posted amortization payments from HDH projects	33,693,790	85,826,129
Un-categorized amortization payments	75,742,181	63,490,271
No abstract of collections	92,960,561	83,782,423
Not in the database	62,208,319	45,711,809

(Forward)

	2021	2020
Non-transmittal of collection documents by NHMFC	14,878,645	14,878,645
Collections from MBs who availed of the 1-year updating scheme	7,379,964	14,404,455
Not in the master list	3,444,477	3,876,084
Un-posted amortization payments from restructured accounts	58,398	58,398
Others	8,794,379	9,649,441
	413,693,000	452,251,959

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 by MBs categorized under *No abstract of collections* and *Not in the master list* can be cleared and posted only when the substitution process requirements and discrepancies noted in the payments of the substitute MBs are complied with.

17.2 Other payables

	2021	2020
Guaranty Deposits Payable	315,249,769	247,448,634
Advances from Borrowers	419,224,817	387,453,211
Origination Fee Payable	34,019,098	32,939,408
Unreleased Checks	6,489,565	222,744,682
Due to Provident Fund	2,323,757	2,337,977
Other Payables	128,087,353	128,504,526
	905,394,359	1,021,428,438

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. Due to Provident Fund

This account refers to deductions made from the salaries of the employees representing 3 per cent of their basic salaries as part of the contributory plan. Upon remittance, the SHFC contributes 15 per cent of the basic salary of each employee.

17.3 Leave benefits payable

This account pertains to accrual of money value of the earned leave credits of regular employees.

17.4 Retirement gratuity payable

This account pertains to retirement gratuity benefits due to employees. SHFC is using RA No. 7641 for the computation of retirement gratuity.

18. EQUITY

18.1 Capital Stock

SHFC has an authorized capital stock of P100 million divided into 100,000 shares with a par value of P1,000 each. A total of 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 for the 15,000 subscribed shares.

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.

18.2 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.

Prior period adjustments for CY2021 amounting to P1.817 million refers to the prior years' accrued expenses. For the year 2020, prior period adjustments amounting to P47.826 million refers to the net amount of unrecorded prior years'

accrued terminal leave benefits and retirement gratuity amounting to P48.505 million, and adjustments in the CY2019 dividends, uniform allowance and travel expense totaling P0.679 million.

Dividends declared for year 2021 was P19.823 million that is due for remittance to Bureau of Treasury on or before May 15 of following year. However, no dividends were declared for the year 2020 due to the negative Net Earnings incurred.

19. SERVICE AND BUSINESS INCOME

This account consists of:

	2021	2020
Service income		
Interest income – loans and receivables	429,994,223	275,162,720
Fines and penalties – business income	178,076,398	118,701,747
Business income		
Other business income		
Service fee	11,339,327	18,612,711
Miscellaneous income	301,627	4,182,513
	619,711,575	416,659,691

19.1 *Other business income account* consists of:

- a. *Service fee* which represents 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.
- b. *Miscellaneous income* account includes:
 - income from penalty on late amortization payments of the MBs;
 - other miscellaneous income derived from processing fee of the application for penalty condonation and substitution;
 - photocopy fee and recovery of VAT payments;
 - interest from calamity loans granted to officers and employees affected by typhoon Ondoy;
 - surcharges from suppliers on late deliveries; and
 - 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.

20. PERSONNEL SERVICES

This account consists of:

	2021	2020
Salaries and wages - regular	132,063,449	134,805,678
Other compensation		
Year-end bonus	11,171,612	11,318,110
Personnel economic relief allowance	5,305,195	5,404,046
Transportation allowance	4,221,326	4,037,418
Representation allowance	3,990,000	3,841,000
Hazard pay	1,415,000	48,000
Clothing/uniform allowance	1,301,220	1,356,000
Cash gift	1,109,000	1,139,000
Overtime and night pay	714,862	836,607
Honoraria	170,000	365,500
Other bonuses and allowances	65,233,147	67,320,175
	94,631,362	95,665,856
Personnel benefit contributions		
Provident/welfare fund contributions	19,668,429	20,189,830
Retirement and life insurance premiums	5,509,617	4,302,560
PhilHealth contributions	1,707,201	1,752,493
Pag-IBIG contributions	266,000	317,500
Employees compensation insurance premiums	79,630	88,100
	27,230,877	26,650,483
Other personnel benefits		
Retirement gratuity	1,849,959	1,440,247
Terminal leave benefits	12,704,870	21,881,405
Other personnel benefits	205,000	0
	14,759,829	23,321,652
	268,685,517	280,443,669

21. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

	2021	2020
Traveling expenses		
Traveling expenses – local	6,730,408	9,855,270
Traveling expenses – foreign	0	1,628,775
	6,730,408	11,484,045
Training and scholarship expenses		
Training expenses	766,698	2,094,761
	766,698	2,094,761
Supplies and materials expenses		
Office supplies expenses	6,275,053	3,945,984
Fuel, oil and lubricants expenses	3,390,151	2,047,591

(Forward)

	2021	2020
Accountable forms expenses	216,289	230,993
Semi-expendable furniture, fixtures and books expenses	118,575	6,955
Drugs and medicines expenses	19,524	83,027
Medical, dental, and laboratory supplies expenses	770	184,820
Other supplies and materials expenses	1,806,370	1,315,152
	11,826,732	7,814,522
Utility expenses		
Electricity expenses	8,130,753	5,721,978
Water expenses	662,403	650,778
	8,793,156	6,372,756
Communication expenses		
Postage and courier services	4,347,556	1,778,639
Internet subscription expenses	2,640,691	2,136,743
Telephone expenses	1,881,667	2,000,825
Cable, satellite, telegraph and radio expenses	43,000	9,900
	8,912,914	5,926,107
Confidential, intelligence and extraordinary expenses		
Extraordinary and miscellaneous expenses	874,761	659,237
Discretionary expenses	0	198,000
	874,761	857,237
Professional services		
Consultancy services	2,778,841	4,086,552
Legal services	1,516,490	0
Other professional services	3,876,859	463,923
	8,172,190	4,550,475
General services		
Clerical services	127,253,840	125,507,559
Security services	53,697,715	54,895,354
Janitorial services	4,069,811	3,000,096
Other general services	1,431,481	7,375,394
	186,452,847	190,778,403
Repairs and maintenance		
Repairs and maintenance – transportation equipment	2,517,796	1,592,239
Repairs and maintenance – leased assets improvements	357,451	296,259
Repairs and maintenance – machinery and equipment	196,003	55,675
Repairs and maintenance – buildings and other structures	23,927	8,000
Repairs and maintenance – semi-expendable furniture and fixtures	2,104	0
Repairs and maintenance – furniture and fixtures	530	10,530
	3,097,811	1,962,703

(Forward)

	2021	2020
Taxes, insurance premiums and other fees		
Taxes, duties and licenses	14,927,386	23,156,619
Insurance expenses	766,530	827,380
Fidelity bond premiums	239,161	145,201
	15,933,077	24,129,200
Other maintenance and operating expenses		
Rent/lease expenses	13,021,627	11,253,252
Association dues	5,641,680	5,383,900
Origination and appraisal cost	5,583,269	5,826,344
Collection servicing fee	4,572,794	4,241,270
Major events and conventions expenses	4,166,233	3,236,523
Financial assistance/subsidy/contribution	2,526,645	3,999,750
Representation expenses	2,152,193	3,300,864
Advertising, promotional and marketing expenses	2,119,335	2,402,759
Directors and committee members' fees	1,860,000	2,727,000
Miscellaneous expense	1,816,085	751,049
Donations	1,075,000	2,880,374
Printing and publication expenses	540,879	404,515
Subscription expenses	203,348	96,244
Transportation and delivery expenses	62,280	2,000
Membership dues and contributions to organizations	5,875	1,800
Others	212,615	1,133,990
	45,559,858	47,641,634
	297,120,452	303,611,843

22. NON-CASH EXPENSES

This account consists of:

	2021	2020
Depreciation		
Depreciation – buildings and other structures	6,781,868	6,781,868
Depreciation – machinery and equipment	8,534,004	7,597,486
Depreciation – transportation equipment	2,862,964	2,915,477
Depreciation – leased assets improvements	1,689,705	1,620,298
Depreciation – furniture, fixtures and books	221,898	235,664
	20,090,439	19,150,793
Amortization		
Origination and appraisal cost	1,421,948	1,698,922
Amortization – intangible assets	1,553,504	1,282,850
	2,975,452	2,981,772
Impairment loss		
Impairment loss – loans and receivables	11,495,825	4,901,007
	34,561,716	27,033,572

23. FINANCIAL EXPENSES

This account consists of:

	2021	2020
Interest expenses	700,404	1,910,569
Bank charges	93,235	1,251,218
	793,639	3,161,787

24. OTHER NON-OPERATING INCOME

This account consists of:

	2021	2020
Interest income – notes	6,165,106	64,190,862
Interest income – bank deposits	17,467,802	2,479,280
	23,632,908	66,670,142

24.1 *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.

24.2 *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.

25. INCOME TAXES

The major components of the provisions for income tax for the years ended December 31, 2021 and 2020 follows:

	2021	2020
Current	6,197,116	8,333,194
Deferred	(323,233)	(63,037,169)
	5,873,883	(54,703,975)

SHFC applied the minimum corporate income tax (MCIT) rate on taxable gross income for CY2021 and CY2020 since its taxable net income resulted in breakeven and net operating loss in CY2021 and CY2020, respectively. Also, SHFC claimed itemized deductions in computing for its income tax due for both CYs 2021 and 2020.

Moreover, regular corporate income tax (RCIT) rate was reduced from 30 to 25 per cent while MCIT rate was reduced from 2 to 1 per cent upon effectivity of RA No. 11534, otherwise known as Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, on April 12, 2021.

25.1 Current Tax Expense

The components of RCIT are as follows:

	2021	2020
Net income (loss) before income tax	42,183,159	(130,921,038)
Non-deductible expense	4,945,280	15,244,597
Interest income on investment/bank deposits	(23,632,908)	(66,670,142)
Accounting income (loss) subject to tax	23,495,531	(182,346,583)
Loan loss provision	11,495,825	4,901,007
Applied NOLCO	(34,991,356)	0
Net taxable income (loss)	0	(177,445,576)
Tax rate	25%	30%
RCIT	0	0

Excess (MCIT) over RCIT:

	2021	2020
Gross income	619,711,575	416,659,691
Tax rate	1%	2%
MCIT	6,197,116	8,333,194
RCIT	0	0
Current tax expense	6,197,116	8,333,194

25.2 Deferred Tax Asset and Expense

The components of SHFC's deferred tax assets follows:

	2021	2020
Deferred tax asset – beginning	108,842,450	45,805,281
Temporary differences:		
Loan loss provision	11,495,825	4,901,007
NOLCO applied	(34,991,356)	177,445,576
Tax rate	25%	30%
	(5,873,883)	54,703,975
Excess MCIT over RCIT	6,197,116	8,333,194
Deferred tax benefit	323,233	63,037,169
Deferred tax asset – ending	109,165,683	108,842,450

The following are the details of the SHFC's Net Operating Loss Carry Over (NOLCO) and excess MCIT, which are available for offsetting against the future taxable income:

NOLCO:

Inception Year	Amount	Applied	Balance	Expiry Year
2020	177,445,576	(34,991,356)	142,454,220	2023
	177,445,576	(34,991,356)	142,454,220	

MCIT:

Inception Year	Amount	Applied	Balance	Expiry Year
2021	6,197,116	0	6,197,116	2024
2020	8,333,194	0	8,333,194	2023
	14,530,310	0	14,530,310	

25.3 Income tax payable

This account represents the income tax still due after deducting previous quarter income tax payments and tax credits, if any for the years ended December 31, 2021 and 2020 follows:

	2021	2020
Income tax due	6,197,116	8,333,194
Less: Tax payments from previous quarters	3,661,385	5,591,221
Income tax payable	2,535,731	2,741,973

26. NET ASSISTANCE/SUBSIDY INCOME FROM NATIONAL GOVERNMENT

The total approved funding allocation and release from DBM as the National Government's support for the housing projects amounted to P1,005,285,424 and P430,525,526 for the years 2021 and 2020, respectively. The financial assistance to Non-Government Organizations (NGOs) and technical assistance and service to People's Organizations (POs) amounted to P19.326 million and P2.759 million for the years 2021 and 2020, respectively.

This is part from the CMP/HDH funding received from NHMFC and a total of P23.971 million fund received from NDRRM for the Marawi Shelter Projects.

27. LEASES

The related rent expense recognized in profit or loss amounted to P13.022 million and P11.253 million for the years ended December 31, 2021 and 2020, respectively. (See Note 21)

Operating Lease

SHFC is a lessee of office spaces for its Regional Extension Units 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, 2021 are as follows:

	2021
Within one year	5,477,668
Beyond one year but not later than five years	3,972,436
	9,450,104

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 property 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 rental payable under these non-cancellable finance lease as at December 31, 2021 are as follows:

	2021
Within one year	3,865,062
Beyond one year but not later than five years	2,004,452
	5,869,514

28. RELATED PARTY DISCLOSURES

As of December 31, 2021, the composition of the Board of Directors of SHFC is as follows:

Board Position	Name	Position from Other Agencies
1. Chairman	Eduardo D. Del Rosario	Chairman, DHSUD
2. Vice-Chairman	Arnolfo Ricardo B. Cabling	President, SHFC
3. Member	Epimaco V. Densing III	Under Secretary, DILG
4. Member	Bayani Hidalgo Agabin	Under Secretary, Department of Finance
5. Member	Felixberto Bustos, Jr.	President, NHMFC (January 1 to March 23, 2021)
6. Member	Ryan S. Lita	Director, DBM
7. Member	Lyndon B. Catulong, Sr.	Private Sector
8. Member	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 P1,860,000 and P2,727,000 for CY 2021 and CY 2020, respectively.

29. COMMITMENTS AND CONTINGENCIES

Legal Claims

SHFC is a respondent to a labor case docketed as AC-973-RCMB-NCR-LVA-024-01-09-2014 titled SOHEAI vs. SHFC in CY 2015 wherein the Office of the Panel Voluntary Arbitrator ruled in favor of SOHEAI directing the garnishment of time deposit at DBP amounting to P70.931 million for the release of discontinued benefits under the Collective Bargaining Agreement and State of the Nation Bonus to its member. The case is currently under appeal to Supreme Court awaiting for its final resolution.

30. 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 the 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 master list 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 collect the monthly amortizations from its members and remit them 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, 2021	Additional Provision	Recovery/ Reversal	Balance, December 31, 2021
Mortgage contracts receivable				
Current accounts	6,278,237		(930,795)	5,347,442
Past due accounts				
Over 3 months – 12 months	8,589,727	685,130	0	9,274,857
Over 12 months – 3 years	12,072,360	10,507,078	0	22,579,438
Over 3 years	55,285,703	1,234,412	0	56,520,115
Items in litigation	4,695,164	0	0	4,695,164
	86,921,191	12,426,620	(930,795)	98,417,016

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, 2021 and 2020 are as follows:

	2021	2020
Financial liabilities	1,079,991,531	1,088,597,025
Deferred credits/unearned income	217,941,932	225,135,120
Other payables	5,869,514	23,763,152
	1,303,802,977	1,337,495,297

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.

31. EVENTS AFTER REPORTING PERIOD

EO No. 150 dated October 1, 2021 on Compensation and Position Classification System's impact on SHFC's financial position is yet to be determined. The SHFC is awaiting the issuance of the Authorization from the Governance Commission for GOCCs (GCG) which will define its category and tier.

32. IMPACT OF COVID-19

Continued efforts from the previous year were undertaken by the SHFC in response to the impact of the COVID-19 pandemic. These include the following:

Efforts made to sustain project take out:

- Continued use of electronic/online platforms (e.g., messenger, email, text messaging, Zoom, Facebook, SHFC website, among others) to communicate and coordinate with the HOA/CAs, LGUs and other stakeholders;
- Conduct of site visits and other activities which need physical interaction while adhering to the DOH Minimum Health Standards and Safety Protocols, in accordance with the alert level status of the area;
- Increased presence on the ground through turnover ceremonies and groundbreaking events to encourage interested CAs to apply for SHFC's programs, while adhering to the minimum public health standards; and
- Virtual orientation, MOA signing and other collaborations with the LGU and other stakeholders.

Efforts made to maintain the loan amortization collections:

- Use of online communication channels;
- Assistance to HOA/CAs through giving of directions on where to conduct collections of housing loan amortizations;
- Promotion of digital payment options to all stakeholders to assist the partner homeowners in paying their amortization;
- Additional online payment channels (PayMaya and GCash); and
- Corporate-wide collection campaign in the form of a collection text brigade participated by all SHFC employees.

Operational Efforts:

- Operated at a minimum workforce capacity to accommodate collections from CAs and MBs;
- Continued use of programs (Online Appointment System, Community Needs Assessment, and Electronic Signature System); and
- Continued adherence to the guidelines on occupational safety and health standards to ensure the safety of all the stakeholders.

33. 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 licenses 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.

	2021	2020
Final tax paid on income	4,244,876	13,334,028
Percentage tax	7,022,753	5,492,019
Real property tax	1,977,823	2,645,218
Business permits	1,681,434	1,684,854
BIR registration	500	500
	14,927,386	23,156,619

The amount of withholding taxes paid/accrued for the taxable years amounted to:

	2021	2020
Income taxes withheld on compensation and final withholding taxes (1604-CF)	25,427,228	25,973,738
Creditable income taxes withheld (expanded)/income payments exempt from withholding tax (1604-E)	19,491,994	7,269,105
	44,919,222	33,242,843

Tax Contingencies

SHFC did not receive any final tax assessments in CY 2021, and has no tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the administration of the BIR.

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. **Undistributed Collections (UC) totaling P413.693 million remained unposted to the Mortgage Contract Receivable (MCR) account, despite the efforts made by Management to lower the accumulated UC and posting to the individual ledger of the member beneficiaries (MBs), thus, overstating both the Other Payables and the MCR accounts by the same amount as at December 31, 2021.**

- 1.1 Paragraph 15 of Philippine Accounting Standards (PAS)1 – Presentation of Financial Statements states that:

Financial statements must present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure, when necessary, is presumed to result in financial statements that achieve a fair presentation.

- 1.2 The UC account refers to the amortization payments not yet applied/posted to the individual borrower's accounts as of statement date due to timing difference and other related concerns such as:

- Payments with no abstract of collections;
- Payments not in the master list;
- Payments from MBs who availed of the One Year Updating;
- Payments from MBs who availed the Restructuring Program;
- Unposted collections from Remedial accounts;
- Payments of MBs not in the database;
- Payments of HDH accounts in the process of migration; and
- Collections of NHMFC for the account of SHFC.

- 1.3 Payments categorized under no abstract of collections 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 MBs, while those not in the master list need to comply with the substitution process before collections can be cleared and posted.

- 1.4 Review of the general ledger of the UC under the Other Payables account as at December 31, 2021 disclosed a total decrease of P38,558,959 or 8 per cent from the total UC balance as at December 31, 2020.

- 1.5 Further review of the allocation of UCs in CY 2021 revealed that the Management was able to post and allocate to the individual ledger balances of the MBs the amount of P178,569,594 or 39.48 per cent of the

accumulated UC balances for CY 2020 and below and a total of P866,947,524 or 86.10 per cent were posted and allocated for the CY 2021 transactions. Details are shown below:

Particulars	Amount	Percentage
UC Balance – December 31, 2020	452,251,959	
Less: 2020 UC distributed/allocated in 2021	178,569,594	39.48*
Balance of 2020 UC	273,682,365	
Add: Undistributed for 2021	1,006,958,158	100.00
Adjusted Balance	1,280,640,523	
Less: 2021 UC distributed/allocated in 2021	866,947,524	86.10**
UC Balance – December 31, 2021	413,693,000	

*Percentage of allocated/distributed UC pertaining to prior years

**Percentage of allocated/distributed UC pertaining to current year

- 1.6 The decrease in the balance of UC account can be associated with the various programs and activities that Management has implemented viz:
 - a. Installation of CAIS Kiosk in the Head Office and Regional Offices;
 - b. Sending notices to various Community Associations (CAs) on the submission of photocopies of Community Mortgage Receipts;
 - c. Providing all Hubs/Branches copies of UC for their validation;
 - d. On site visits to CAs upon request of the CA officers;
 - e. Immediate reversal of accounts received thru email and walk in CAs; and
 - f. Reconciliation of payments through Landbank with the CA officers.
- 1.7 Management created the Corporate Accounts Division (CAD) under the Corporate Governance Cluster to do the reconciliation activity in order that these UCs, especially the old accounts, will be reduced and posted accordingly to the proper accounts. Continuous coordination with National Home Mortgage Finance Corporation (NHMFC) is also being undertaken for the possibility of submission of the electronic or photocopies of the Daily Collection Reports (DCRs).
- 1.8 In addition, the SHFC President approved the use of the Interim Collection and Ledgering Program that will cater the High Density Housing Program beneficiaries. The function of the Ledgering Program is to generate ledger for the billing and application of payments of the individual MB while the collection function is to create and manage collections' database for the HDHP beneficiaries. Also, the Information and Communication Technology Department (ICTD) is still in the process of developing a computer system that will cater the HDHP accounts. Management is in the process of enhancing the migration of the HDHP accounts and other accounts not yet in the database.
- 1.9 Further, payments with abstract of collection's related issues refer to the Landbank and other online partners where the Abstract of Collection and actual payments does not tally, thus, a reconciliation is necessary with consultation to the CAs before posting the payments to the individual ledger of the MBs. In addition, ledger/data from NHMFC accounts were not yet provided.

- 1.10 Despite the earnest efforts of Management to reduce the UC, there is still a balance of P413.693 million as at December 31, 2021, which resulted in the overstatement of both the Payable and Receivable accounts by the same amount.
- 1.11 **We reiterated our prior year's recommendations and Management agreed to:**
- a. **Submit a work breakdown schedule and to post and allocate UC for CY 2020 and earlier by at least:**
 - i. **60 per cent by the end of CY 2022**
 - ii. **40 per cent by the end of CY 2023;**
 - b. **For the current year's collections lodged in UC, ensure posting at the end of the calendar year; and**
 - c. **Require the ICTD to facilitate the enhancement of the database of HDHP MBs under migration and all other accounts not yet in the database.**
- 1.12 **We further recommended that Management closely and constantly coordinate with the CAs and NHMFC on the submission of documents necessary in the reconciliation of the UC account.**
- 1.13 Management commented that the following CAD plan of action were undertaken to minimize the accumulation of UC:
- For the Abstract of Collection accounts - assist the Hubs/Branches and Regional Offices in sending UC letters to CAs and helping and encouraging CAs to use the CAIS Kiosk to prevent accumulation;
 - Not yet in the database accounts - require the concerned branches to encode the Master List of Beneficiaries and Loan Apportionment (MBLA) of the newly taken-out projects;
 - MBs not in the master list accounts - inform branches/collection unit to advice CAs or their substitutes to use the original MB's account number in paying amortizations in order that payments can be posted;
 - NHMFC accounts - coordinate with NHMFC to continue with the reconciliation that has not been undertaken due to COVID 19 pandemic restrictions and by requiring them to submit electronic or photocopy of DCRs which will be used in the reconciliation activity;
 - Restructured accounts - monitoring on the use of the new restructuring loan application through Operation Support Information System (OSIS) post take out Loan Management System;

- Conduct of workback and reconciliation for the remedial, one year updating, and unaccounted accounts; and
- The Finance and Comptrollership Department (FCD) has already initiated piloting and posting of billing and advance interim ledgering worksheet, and ICTD has already incorporated the ZEUS HDHP accounts and undergoing review of the MBs' ledger and other functionalities.

2. The requirements of PFRS 9 on *Financial Instruments* were not complied with, thus, the balances of various financial asset accounts totaling P21.813 billion as at December 31, 2021 are misstated by undetermined amounts.

2.1 The following are the pertinent provisions of PFRS 9 – *Financial Instruments*, to wit:

On measurement

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.*

On impairment

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).

5.5.3 Xxx, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

5.5.5 Xxx, if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

5.5.16 An entity may select its accounting policy for trade receivables, lease receivables and contract assets independently of each other.

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 Moreover, PAS 1 requires that financial statements must present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework for Financial Reporting. The application of financial reporting standards, with additional disclosure, when necessary, is presumed to result in financial statements that achieve a fair presentation. A fair presentation also requires an entity to select and apply accounting policies in accordance with PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. PAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of a PFRS that specifically applies to an item.

2.3 As stated under Paragraph 1.1 of PFRS 9, the objective of this standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for the assessment of the amounts, timing and uncertainty of an entity's future cash flows.

2.4 As at December 31, 2021, SHFC reported the following financial assets which are recorded at amortized cost:

Particulars	Amount	% over Total Assets	Remarks
Investments	55,000,000	0.19	B;C
Receivables, current	2,239,245,511	7.64	A
Other current assets	1,391,422,427	4.75	A
Receivable, non-current	17,454,632,496	59.59	B
Other non-current assets	672,590,989	2.30	A
	21,812,891,423	74.47	
Cash and cash equivalents	4,859,964,897	16.59	D
Investment in time deposits	109,990,000	0.38	D
Total Financial Assets	26,782,846,320	91.44	
Total Assets	29,291,356,092	100.00	

A –SHFC should select its accounting policy for trade receivables, lease receivables and contract assets independently of each other and shall recognize a loss allowance for expected credit losses in accordance with paragraph 5.5.16.

B –SHFC should also recognize a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 (amortized cost).

C – SHFC should provide the required disclosures in the Notes to Financial Statements for its Investment Bonds and Other investment.

D – These accounts should be simplified as low credit risk, hence, no ECL.

- 2.5 Review of the SHFC's SFP as at December 31, 2021 showed that its financial assets totaling P21,812,891,423, representing 74.47 per cent of its total assets amounting to P29,291,356,092 are not compliant with PFRS 9.
- 2.6 Further review of the accounts disclosed that SHFC still assesses and computes impairment for MCR only through Loan Loss provisioning which was approved under Board Resolution No. 329 dated May 24, 2013, as follows:

Loan Classification	Loan Loss Rate (%)
Current Accounts	0.25
Current Accounts – Restructured	0.25
Past Due	
>3-12 months	0.50
>1-3years	0.75
Over 3 years	1.00
Items in Litigation	5.00

- 2.7 The aforementioned rates were applied in the actual computation of impairment loss and allowance for impairment loss only for the MCR as at December 31, 2021, as follows:

Impairment Loss

Loan Classification	Amounts in Pesos		
	Additional Provision	Recovery/ Reversal	Total
Current Accounts	0	(930,795)	(930,795)
<i>(Forward)</i>			
Past Due Accounts			
>3-12 Months	685,130	0	685,130
>1-3 Years	10,507,078	0	10,507,078
Over 3 Years	1,234,412	0	1,234,412

Loan Classification	Amounts in Pesos		
	Additional Provision	Recovery/ Reversal	Total
			11,495,825

Allowance for Impairment Loss

Loan Classification	Outstanding Principal Balance	Loan Loss Rate (%)	Loan Loss Provision
Current Accounts	2,138,976,718	0.25	5,347,442
Past Due Accounts			
>3-12 Months	1,854,971,381	0.50	9,274,857
>1-3 Years	3,010,591,683	0.75	22,579,438
Over 3 Years	5,652,011,494	1.00	56,520,115
Items in Litigation	93,903,294	5.00	4,695,164*
			98,417,016

*Difference of P1 was due to rounding off.

- 2.8 There are no expected credit losses (ECL) recognized in the books on these MCR accounts and other financial assets mentioned in paragraph 2.4. The ECL should 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 continuing practice of SHFC.
- 2.9 It must be emphasized that Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with Management's assertions embodied in the financial statements.
- 2.10 The following should be considered in the classification and measurement of financial assets as required in PFRS 9 and in the selection of accounting policy for the application of these requirements:
- The business model at the level of portfolio;
 - Classification or designation of financial instruments;
 - Their initial and subsequent measurements;
 - Application of ECL (Expected Credit Losses) and Credit Loss Allowances, generally, in three stages; and
 - Any relevant tainting provisions or derecognitions.
- 2.11 Likewise, ECL is calculated by: (a) identifying scenarios in which a loan or receivable defaults; (b) estimating the cash shortfall that would be incurred in each scenario if a default were to happen; (c) multiplying that loss by the probability of the default happening; and (d) summing the results of all such possible default events. ECL calculation model should calculate an unbiased and probability weighted amount to be presented as impairment to book value of financial asset in SFP. Since most entities would have to start from scratch and probably will find as very acceptable and convenient, the aforementioned calculation is presented as:

$ECL = EAD \times LGD \times PD$

ECL – Expected Credit Losses; EAD – Exposure at Default; LGD – Loss Given Default; and PD – Probability of Default

- 2.12 For the financial assets, SHFC may select its accounting policy for impairment depending on the embedded credit risks and the significance of its increases as mentioned in paragraphs 5.5.3 and 5.5.5 of the same Standard. Further, a provision for a loss allowance and expected credit loss should be made in accordance with paragraph 5.5.17.
- 2.13 To address the previous year's recommendation on the assessment, measurement and recording of impairment losses, Management drafted and proposed the "SHFC Accounting Manual" which was finalized on January 21, 2022 that includes the features of the aforementioned Standard but still subject to the Board of Directors' approval. Hence, this was not yet applied in the SHFC's Financial Statements as at December 31, 2021.
- 2.14 Further, minimum disclosure requirements under PFRS 7 which includes: (1) classes of financial instruments and level of disclosure; (2) significance of financial instruments for financial position and performance; (3) nature and extent of risks arising from financial instrument (qualitative and quantitative disclosures); and (4) transfers of financial assets, if any, were not yet complied because Management still applies PAS 39 in its Financial Statements, and the disclosure requirements relating to these financial instruments are still based on PAS 32, Financial Instruments: Disclosure and Presentation.
- 2.15 The non-compliance with the requirements of PFRS 9 on Financial Instruments resulted in the misstatement of the balances of various financial asset accounts totaling P21.813 billion as at December 31, 2021 by undetermined amounts. In addition, the non-compliance with the disclosure requirements under PFRS 7 affects the fairness of presentation of these accounts in the financial statements.
- 2.16 **We reiterated our prior year's recommendation, with modification, for Management to make a representation to the Board of Directors to fast track the approval of the SHFC Accounting Manual and accordingly apply the policy on the proper classification, measurement and impairment of all financial instruments of SHFC.**
- 2.17 **We further recommended that Management provide the disclosures required under PFRS 7 in the Financial Statements.**
- 2.18 Management commented that the necessary entries will be recorded once the SHFC Accounting Manual has been approved by the Board of Directors.

3. The present value of expected payments to cover future retirement benefits of SHFC's employees was not measured, recognized and disclosed regularly in the books as benefit cost and benefit obligation, contrary to PAS 19 on Employee Benefits, resulting in the understatement of both the expense and liability accounts by undetermined amounts. 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/avallment period and which has likewise an adverse impact on cash flows for the period.

- 3.1 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 (or 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 PFRS 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 (or asset) in profit or loss; and*
- (c) remeasurements of the net defined benefit liability (or asset) in other comprehensive income.*

122. *Remeasurements of the net defined benefit liability (or 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 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 plans may affect the amount, timing and uncertainty of the entity's future cash flows.*

- 3.2 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.

- 3.3 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 in its Articles of Incorporation. This translates that SHFC shall take the form of a private corporation whose personnel are covered by the Labor Laws thus, entitled to retirement pay granted to private employees.
- 3.4 A total of 222 regular and permanent employees with plantilla positions are existing as at December 31, 2021, of which five employees retired during the year, thus entitling them to retirement gratuity. Due to the absence of an established retirement plan or agreement, SHFC granted the minimum retirement benefits set forth in the Republic Act (RA) No. 7641, otherwise known as The Retirement Pay Law to its eligible employees, 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 month pay and the cash equivalent of not more than five (5) days of service incentive leaves. xxx

- 3.5 Retirement benefits granted by SHFC to all its eligible employees under RA No. 7641 fall under the category of Defined Benefit Plans, pursuant to PAS 19. 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.
- 3.6 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.
- 3.7 Records disclose that the initial set-up of accrued retirement benefits amounting to P21,430,641 was made in CY2020 for the 22 employees who will reach the compulsory retirement age of 65 and those who wish to avail early retirement upon reaching the age of 60 and have served at least five (5) years with SHFC as at December 31, 2020 and succeeding years. After the release of the retirement pay to the three retirees in CY2021, the

ending balance of said account of P20,276,776 now only pertains to the remaining 19 employees.

- 3.8 It was observed that no measurement of the retirement benefits obligation was made to the remaining 203 employees who are not yet qualified to said long term employee benefit as at December 31, 2021.
- 3.9 Accordingly, the Retirement Gratuity in the amount of P20,276,776 reported under the Current Liabilities portion in the SFP as at December 31, 2021 is understated by an amount corresponding to the retirement benefit costs of the 203 employees. Moreover, its Statement of Comprehensive Income (SCI) shows non-measurement of defined benefit costs which should include service cost attributable to the current and past periods, interest on defined benefit liability and actuarial gains and losses, if necessary. Hence, the cumulative balance of remeasurement gains/(loss) on retirement plan on actuarial gains and losses under other comprehensive income in the SCE is not recognized.
- 3.10 In addition, disclosure requirements on defined benefit plans provided under paragraph 135 of PAS 19 which include: (1) characteristics of defined benefit plans and risks associated with them (par.139); (2) explanation of amounts in the financial statements (pars. 140-144); and (3) amount, timing and uncertainty of future cash flows (pars. 145-147), were also not complied due to the absence of established retirement plan and actuarial valuation report.
- 3.11 The accounting for defined benefit plan is complex because of the actuarial assumptions which is required to measure all material post-employment benefit obligations and expense and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because settlement may take several years, that is, after the employees have rendered the related years of service. Likewise, PAS 19 provides, among others, the use of actuarial valuation method, through the assistance of a qualified actuary service, in order to properly measure the cost of defined benefit plan that may be influenced by many variables, such as final salaries, employee turnover and mortality as of reporting period.
- 3.12 In our inquiry with the Management, SHFC already hired E.M. Zalamea Actuarial Services Inc. for the preparation of actuarial valuation of the Corporation's retirement plan covering all of its employees. However, said report is still subject to review by Management and adjustments are still not recognized in the Financial Statements.
- 3.13 Thus, the non-recognition of the present value of expected payments to cover all material future retirement benefits of all SHFC employees is contrary to the provisions of PAS 19, resulting in the understatement of liabilities as well as defined benefit cost (retirement expense) to be recognized in profit or loss and other comprehensive income. Moreover, the outright recording of retirement gratuity and lump sum payout upon its availment will have an adverse impact on the cash flows for the period.

3.14 **We reiterated our prior year's recommendations and Management agreed to:**

- a. **Recognize in the books the present value of expected payments as expense and liability pursuant to PAS 19 to cover the future retirement benefits;**
- b. **Disclose in the Notes to Financial Statements pertinent and necessary information required under paragraph 135 of PAS 19 on Employee benefits; and**
- c. **Closely coordinate with an Actuary to facilitate 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.**

3.15 Management commented that they have engaged the services of an Actuary in November 2021 to facilitate the proper measurement and accounting of future retirement benefits as provided for in PAS 19. The Human Resource Services and Benefits Division (HRSBD) is closely coordinating and collaborating with the Actuary which involve activities such as but not limited to data gathering, organizing and attending meetings and documentation. Further, a meeting was conducted on March 7, 2022 where the Actuary presented and discussed the report which will still be subject to further study prior to acceptance.

4. The accounts Rights-of-Use of Assets (ROUA) and Lease Payable are not recognized in the books of SHFC, contrary to the requirements of PFRS 16 on Leases, thus, the assets and liabilities are both understated, and the balances of the related accounts are misstated all by undetermined amounts as at December 31, 2021 and 2020.

4.1 As disclosed in the Notes to Financial Statements, SHFC is regarded as a Lessee. We, however noted that SHFC has not yet adopted PFRS 16 on its leases including the application guidance prescribed under COA Circular No. 2021-009 dated October 01, 2021 for all Government Corporations classified as Commercial Public Sector Entity which shall mandatorily apply the provisions of the said Standard effective January 1, 2020.

4.2 Based on the provisions of the Standard, the COA Circular prescribed the entries¹ to be considered in the books of the Lessee. For leases scoped under PFRS 16, ROUA and Lease Payable should be recognized upon adoption/commencement date. The ROUA shall be initially measured at cost and the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

¹ Also refer to COA Circular No. 2021-009 dated October 1, 2021.

- 4.3 Subsequently, Depreciation Expense and the corresponding increase in Accumulated Depreciation shall be recognized for ROUA and Interest Expense for Lease Payable and its corresponding increase. Cash or cash in bank shall be debited for payments received on lease liabilities.
- 4.4 Aside from the non-recognition of ROUA and Lease Payables, the following accounts are affected by the non-adoption of PFRS 16 for CYs 2021 and 2020:

Statement of Financial Position

Account Name	2021	2020	Remarks
Accumulated Depreciation	200,598,921	180,508,482	A
Retained Earnings	7,757,631,599	6,753,369,634	B
Property and Equipment - Buildings and Other Structures	100,961,313	107,743,181	C
Loans Payable – Domestic (Current and Non-current)	5,869,514	18,179,242	C

A – Understated due to unrecognized cumulative Depreciation Expense.

B – Misstated due to overstatement of Rent/Lease Expenses and unrecognized Interest and Depreciation Expenses.

C – Refers to the cost and outstanding balance of the office building, parking space and other structures acquired from the Bangko Sentral ng Pilipinas (BSP). For reclassification to ROUA and Lease Payables.

Statement of Comprehensive Income

Account Name	2021	2020	Remarks
Rent/Lease Expenses	13,021,627	11,253,252	D
Depreciation Expenses	20,090,439	19,150,793	E
Interest Expenses	700,404	1,910,569	E

D – Overstated due to non-adoption of PFRS 16 for lease contracts with a period of more than one year

E - Understated due to unrecognized Depreciation and Interest Expenses.

- 4.5 However, PFRS 16 and the COA Circular provides recognition exemption for short-term leases or leases for which the underlying asset is of low value when new. For this kind, the lessee shall recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.
- 4.6 Further validation of the Rent/Lease Expense account for CY 2021 showed that there are rent of office spaces and warehouses of SHFC which are for more than one year. These are not considered short-term leases to apply the recognition exemption, hence, should be recorded as ROUA and Lease payable.
- 4.7 For the disclosure requirements, the ROU and lease liabilities should be presented in the Statement of Financial Position separately from other assets and other liabilities except for right-of-use asset that meet the definition of Investment Property, which shall be presented as investment property.

- 4.8 To adopt the new Accounting Standards, Management drafted the SHFC Accounting Manual which was finalized on January 21, 2022. However, the same is still for the approval of the Board of Directors, hence, appropriate accounting policy was not yet applied in the SHFC's Financial Statements as at December 31, 2021.
- 4.9 Thus, the non-compliance with the requirements of PFRS 16 on *Leases* resulted in the understatement of the asset and liabilities for the non-recognition of ROUA and lease liabilities, respectively, as at December 31, 2021 and 2020 both by undetermined amounts. The balances of the related Retained Earnings of P7.757 billion in 2021 and P6.763 billion in 2020; Accumulated Depreciation of P200.599 million in 2021 and P180.508 million in 2020; Rent/Lease Expenses of P13.022 million in 2021 and P11.253 million in 2020; Depreciation Expenses of P20.090 million in 2021 and P19.151 million in 2020; and Interest Expenses of P0.700 million in 2021 and P1.911 million in 2020 are all misstated also by undetermined amounts. The application of PFRSs, with additional disclosure, when necessary, is presumed to result in financial statements that achieve a fair presentation as provided in PAS 1.
- 4.10 **We recommended and Management agreed to facilitate the approval by the Board of Directors and subsequent implementation of the accounting policy that is compliant to the provisions of PFRS 16, including its disclosure requirements on SHFC's leases.**

B. OTHERS

5. **The balance of the Trust Fund amounting to P7.700 million received from the Department of Social Welfare and Development (DSWD) for the emergency shelter assistance of families whose houses were damaged by Typhoon Sendong was applied as loan amortization payment of member beneficiaries. This is not in accordance with the intended purpose provided in the Memorandum of Agreement (MOA) between DSWD and SHFC and is contrary to Section 4(3) and Section 84(2) of Presidential Decree (PD) No. 1445. This also defeats the objective of the trust fund to provide immediate assistance to intended beneficiaries at the earliest possible time.**

- 5.1 PD No. 1445, Ordaining and Instituting a Government Auditing Code of the Philippines, provides the following pertinent sections regarding the appropriation or disbursement of trust funds:

Section 4. Fundamental principles.

Xxx

*(3) Trust Funds shall be available and **may be spent only for the specific purpose** for which the trust was created or the funds received. xxx (Emphasis ours)*

Section 84. Disbursement of government funds.

Xxx

(2) Trust funds shall not be paid out of any public treasury or depository except in fulfillment of the purpose for which the trust was created or funds received, and upon authorization of the legislative body or head of any other agency of the government having control thereof, and subject to pertinent budget law, rules and regulations. xxx

- 5.2 Article III of the MOA between DSWD and SHFC dated October 5, 2015 on Duties and Responsibilities states that the fund released by DSWD is solely for the purchase of housing materials and that a Financial and Accounting records must be kept and maintained for the said funds in accordance with the generally accepted accounting and auditing principles.
- 5.3 As the implementing agency of the funds received, SHFC is bound to observe the terms and conditions laid in the agreement and cannot go beyond the appropriation of funds other than the specific purpose provided therein.
- 5.4 On October 5, 2015, DSWD and SHFC entered into an agreement to implement the DSWD Emergency Shelter Assistance (ESA) program which provides support to informal settler families (ISF) who are victims of Typhoon Sendong by extending financial grant amounting to P70,000 for the purchase of housing materials. The fund amounting to P10,360,000 was transferred and received by SHFC on July 1, 2016 covering a total of 148 ISF beneficiaries who are entitled to the financial grant.
- 5.5 On November 27, 2020, SHFC communicated through a letter addressed to the DSWD Undersecretary, Disaster Response Management Group, the proposal to credit the P70,000 ESA as partial payment of the MBs' housing loan through a Deed of Assignment executed in favor of SHFC. As of report date, there is no written approval yet on the changes in purpose and modality of the distribution of ESA, as provided under Article V of the Amendment/Revision of MOA, has been received from DSWD.
- 5.6 Review of the Report of Checks Issued (RCI) and Report of Disbursement (RD) as at December 31, 2021 showed that out of the total trust fund of P10,360,000, the amount of P7,700,000 was utilized as loan amortization payments by 110 MBs. The remaining unutilized portion in the amount of P2,660,000 was refunded to DSWD on May 31, 2021. Details are as follows:

Fund	Ref. No.	Ref. Date	Payee	Particulars	Amount
DSWD Fund - Beginning Balance					10,360,000
<i>(Forward)</i>					
Less: Liquidations	JEV No. 2021050002	5/28/2021	Qualified MBs from the following HOA: 1. HOA A 2. HOA B 3. HOA C 4. HOA D 5. HOA E 6. HOA F	Application of DSWD Fund Assistance to the housing loans of 110 MBs/survivor	7,700,000

Fund	Ref. No.	Ref. Date	Payee	Particulars	Amount
	DV No. 2021051 528	5/31/2021	Department of Social Welfare and Development	Refund of unutilized DSWD Fund (OR No. 9334585 dated June 1, 2021	2,660,000
DSWD Fund - Ending Balance as of 12/31/2021					0

- 5.7 The automatic application of ESA to the loan of DSWD grantees was supported by Deeds of Assignment with various dates from March to May 2021. The MBs, who were the DSWD grantees, assigned to SHFC the ESA of P70,000 each as partial payment to their housing loan.
- 5.8 Further review of the liquidation report together with the Statement of Payment and Application of each of the 110 MBs as at May 31, 2021, disclosed that the utilized portion of trust fund amounting to P7,700,000 was deducted to the outstanding housing loans for lot acquisition, loan assistance, site development and house construction of the MBs. This resulted in excess payments totaling P1,107,121 recorded as deposits in the ledger cards of the 55 MBs, and outstanding loan balance amounting to P3,510,810 recorded under Mortgage Contract Receivables (MCR) for the other 55 MBs. Details are shown below:

Community Association	No. of MBs	Nature of Approved Loan	Loan Take-Out Date	Total Amount of Loan Approved	Total Amount of Grant deducted to loan balance	Outstanding Loan Balance/ (Deposit) as of 5/31/2021
Excess payments after deducting P70,000 recorded as Deposits						
HOA A	20	Lot Acquisition	11/16/2012	700,578	1,400,000	(394,420)
		Loan Assistance	01/17/2014	7,093		
HOA B	14	Lot Acquisition	11/21/2012	493,256	980,000	(351,022)
		Loan Assistance	01/17/2014	5,713		
HOA C	21	Lot Acquisition	01/29/2013	1,302,414	1,470,000	(361,679)
Subtotal	55			2,509,054	3,850,000	(1,107,121)
Outstanding loan balance recorded as MCR						
HOA D	33	Lot Acquisition	03/13/2013	1,942,791	2,310,000	1,901,402
		Site Development	06/03/2019	960,000		
		House Construction	06/03/2019	1,200,000		
HOA E	14	Lot Acquisition	12/28/2012	889,695	980,000	1,436,439
		Loan Assistance	02/04/2014	4,416		
		Site Development	03/28/2019	420,000		
		House Construction	06/03/2019	1,080,000		
HOA F	8	Lot Acquisition	11/27/2012	482,825	560,000	172,969
		Site Development	09/30/2019	252,751		
Subtotal	55			7,232,478	3,850,000	3,510,810
TOTAL	110			9,741,532	7,700,000	2,403,689

- 5.9 Verification of the excess application of P70,000 financial assistance of 55 MBs from HOA A and HOA B and HOA C totaling P1,107,121 showed that the amount was only transferred from Trust Liability account to Other Payables - Advances from Borrowers account. We further observed that there were subsequent loan payments received from these 55 MBs.

- 5.10 During one of the meetings with Management, we were informed that they used the financial assistance fund to pay the loan of the MB because this is a continuing project and that it will ease the burden of the beneficiaries.
 - 5.11 We wish to emphasize that absence of any authority from the DSWD allowing SHFC to utilize the fund for payment of the MBs' housing loan is tantamount to using the fund for a purpose other than that defined in the MOA. Thus, the utilization of the trust fund amounting to P7,700,000 to pay the housing loans of MBs affected by Typhoon Sendong and not in accordance with the DSWD ESA program provided in the MOA is contrary to Section 4(3) and Section 84(2) of PD No. 1445. This defeated the objective of the fund to provide immediate assistance to intended beneficiaries at the earliest possible time.
 - 5.12 **We recommended and Management agreed to seek a written authority from the DSWD Secretary for the change in the purpose of the trust fund and modality of its distribution to the MBs as stipulated in the MOA. Otherwise, return the amount of P7.700 million to the DSWD.**
 - 5.13 Management commented that they will seek a written approval or authority by writing to the DSWD Secretary explaining how SHFC has substantially complied with the purpose of the MOA including the use of the funds as shelter assistance and the way these were distributed to the 110 MBs.
- 6. ESA amounting to P5.390 million sourced from the DSWD trust fund was granted to seventy-seven (77) substitute MBs without securing prior approval from DSWD on the amendment of the original list of MBs, contrary to Section 1.1 of Article III of the MOA between DSWD and SHFC. This casts doubt on the eligibility of the substitute beneficiaries as the rightful recipients of the program.**
- 6.1 Article III of the MOA between DSWD and SHFC dated October 5, 2015 provides the following duties and responsibilities of the DSWD on the release of financial assistance to eligible beneficiaries:

Article III - 1. Duties and Responsibilities of DSWD:

 - 1.1. *Within fifteen (15) working days from receipt of written request from SHFC for release of funds, transfer to SHFC the amount of Ten Million Three Hundred Sixty Thousand Pesos (P10,360,000.00) for the shelter assistance to 148 informal settler families victim of "Typhoon Sendong" in Cagayan de Oro City in the amount of Seventy Thousand Pesos (P70,000.00) per ISF (See list of identified MBs attached as Annex "A". **Provided however, that the list may be amended with the consent of the Parties; Xxx...***
 - 6.2 Further, Article II of the same MOA enumerated the following eligibility requirements of the MBs that must be complied with:

- a) *The member-beneficiary is not recipient of any other housing assistance from any other individual group, government agency or non-government agency (NGO) due to the typhoon Sendong except the Community Mortgage Program;*
- b) *Monthly income of the member-beneficiary's family (composed of six (6) members) should be below the food threshold of Ten Thousand Nine Hundred Thirty-Six Pesos (P10,936.00) in urban areas and Nine Thousand Seven Hundred Sixty-Seven Pesos (P9,767.00) in rural areas;*
- c) *Must be victims of typhoon Sendong and their houses were totally or partially damaged/flooded as a result hereof; and*
- d) *Relocation site is certified as suitable for housing by the DENR Mines and Geo-sciences Bureau (MGB).*

6.3 The DSWD ESA amounting to P70,000 per beneficiary is intended to be distributed to the earlier identified and agreed upon 148 ISF who are victims of Typhoon Sendong.

6.4 Validation of the documents of said beneficiaries disclosed that they are members of the Community Associations with approved Community Mortgage Loan from SHFC. These ESA recipients may be replaced by other ISF victims of Typhoon Sendong if they meet the eligibility criteria provided in Article II of the MOA, duly supported with the written consent of the DSWD and SHFC. The DSWD, as source agency of the fund, has the responsibility to validate the master list of MBs submitted by SHFC and give consent thereto before the release of financial grant to the substitutes. However, there is no document to show whether the substitutes were validated by the DSWD.

6.5 Comparison of the original master list of MBs entitled to receive the ESA, which is attached to the MOA, against the Statement of Payment and Application (SPA) revealed that a total of 77 MBs, or 70 per cent of the 110 total ESA grantees, are not included in the original list of beneficiaries. However, the 77 MBs benefited on the automatic application of P70,000 financial grant to their outstanding loan balance which totaled P5,390,000, as shown below:

Community Association	No. of MBs	Original Recipients of Shelter Assistance			Substitute Recipients of Shelter Assistance		
		No.	Per cent	Amount	No	Per cent	Amount
HOA A	20	3	15	210,000	17	85	1,190,000
HOA B	14	1	7	70,000	13	93	910,000
(Forward)							
HOA C	21	11	52	770,000	10	48	700,000
HOA D	33	8	24	560,000	25	76	1,750,000
HOA E	14	5	36	350,000	9	64	630,000
HOA F	8	5	63	350,000	3	38	210,000
Total	110	33	30	2,310,000	77	70	5,390,000

er validation disclosed that the 77 substitute MBs did not pass the eligibility requirements, as shown below:

Community Associations	No. of Substitutes	Member of HOA Board	Eligibility Requirements under Article II				Documents Submitted
			A	B	C	D	
HOA A	17	none	x	x	x	x	i, ii
HOA B	13	2	x	x	x	x	i, ii
HOA D	25	2	x	x	x	x	i, ii, iii
HOA E	9	2	x	x	x	x	i, ii
HOA C	10	4	x	x	x	x	i, iii, iv
HOA F	3	none	x	x	x	x	i, iii
TOTAL	77	10					

Eligibility Requirements

- A *The member-beneficiary is not recipient of any other housing assistance from any other individual group, government agency or non-government agency (NGO) due to the typhoon Sendong except the Community Mortgage Program*
- B *Monthly income of the member-beneficiary's family (composed of six (6) members) should be below the food threshold of Ten Thousand Nine Hundred Thirty-Six Pesos (P10,936.00) in urban areas and Nine Thousand Seven Hundred Sixty-Seven Pesos (P9,767.00) in rural areas*
- C *Must be victims of typhoon Sendong and their houses were totally or partially damaged/flooded as a result hereof*
- D *Relocation site is certified as suitable for housing by the DENR Mines and Geo-sciences Bureau (MGB)*

6.7 Further verification also revealed that instead of the documents required under Article II of the MOA, the following documents were submitted by the HOA to SHFC as attached to the liquidation reports:

- i. HOA Board Resolution on Approval of Substitution of Beneficiaries - it states that due diligence and validation was conducted on the substitutes who are also Typhoon Sendong Survivor Families and have not availed of any government housing grant other than from SHFC.
- ii. Barangay Certificate of ISF - it states that the recipient does not own any parcel of land and that he/she belongs to the informal settler family.
- iii. Barangay Certificate of Indigency and 4Ps ID - it states that the beneficiary belongs to the indigent family and have no sufficient source of monthly income.
- iv. Barangay Certificate of Typhoon Sendong Victim - it states that the beneficiary is a victim of Typhoon Sendong with totally or partially damaged properties.

6.8 We further observed that out of the total 77 substitutes, 10 are officers of the Home Owners Association (HOA) Board who approved the substitution, rendering the selection process of the substitutes doubtful.

6.9 The SHFC, in its letter dated November 27, 2020 addressed to the DSWD Undersecretary, Disaster Response Management Group, mentioned that the Management coordinated with DSWD Cagayan De Oro (CDO)

Regional Office on the substitution of 77 grantees of ESA. In response to the letter of SHFC, the DSWD CDO Regional Office commented that the substitution must be supported by a Certification issued by the Local Housing Inter-Agency Committee (LHIAC) that the official substitute is a Typhoon Sendong victim and not a beneficiary of any other government shelter agencies projects. Further, we were informed that the matter will be taken as part of the agenda in the coming Management Committee Meeting of the SHFC.

- 6.10 For the substitution process to be given due course by DSWD, the documents to support the eligibility of substitutes have to be submitted by SHFC and HOAs for validation by DSWD before the substitution rights can take place.
 - 6.11 Thus, the non-submission by the HOA of the complete requirements to SHFC and absence of consent or approval from DSWD on the 77 substitute MBs, casts doubt on the eligibility of the substitute beneficiaries and depriving the original MBs the right to ESA totaling P5.390 million.
 - 6.12 **We recommended and Management agreed to:**
 - a. **Submit the required documents to DSWD and secure a written approval from the DSWD Secretary on the changes in the list of beneficiaries of the ESA; and**
 - b. **Require the HOA to submit to SHFC the documentary requirements for the actual recipients of the ESA, who are substitutes of those in the original list of MBs, to avoid unauthorized substitution of the original MBs including the certification issued by the LHIAC.**
 - 6.13 Management commented that they will seek approval by submitting a letter to the DSWD Secretary to explain and get conforme on how SHFC substituted the MBs affected by Typhoon Sendong.
 - 6.14 Management also commented that they will require the HOA to submit the documents needed in the substitution process of the actual recipients of the ESA.
7. **The High Density Housing (HDH) Project for the Phase II (Site Development and Housing Construction) of a Community Association (CA) with a project cost of P222.705 million funded by the Department of the Interior and Local Government (DILG) Trust Fund was not completed within the scheduled date, contrary to the provisions of SHFC Corporate Circular No. 13-026 and Building Construction and Site Development Agreement and Notice to Proceed, depriving the intended 546 ISF-beneficiaries living in waterways and danger zones of decent and affordable housing, defeating the objectives of the Program and the possible non-recovery of funds invested in housing.**

- 7.1 SHFC Corporate Circular No. 13-026 on High Density Project Guidelines states that SHFC is mandated to be the lead government agency to undertake social housing programs that will cater to the formal and informal sectors of the low-income bracket and shall take charge of developing and administering social housing schemes. SHFC can participate in the ISFs Housing Project and enable it to extend financing assistance to organized communities for the construction of high-density housing program. The beneficiaries of the HDHP are CAs of informal settlers who are living in danger areas and along the waterways in highly urbanized cities. The property to be purchased shall be chosen by the CAs living along waterways and danger areas in Metro Manila pursuant to its people's plan.
- 7.2 The Building Construction and Site Development Agreement executed by and between contractor A, known as the First Party, and the HOA D, E and F, 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, on the basis of the warranties and representations made by the FIRST PARTY, the SECOND PARTY has accepted the offer of the FIRST PARTY to undertake the development of the project including construction of the housing units/buildings and site development of the PROJECT under such term and conditions stipulated therein;

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;

- 7.3 The following Articles of the same Agreement provides that:

Article III - *The scope of work to be performed under this Agreement shall be fully completed within one (1) year from the release of the mobilization fund from the government financing institution, the Social Housing Finance Corporation (SHFC).*

Article VII – Performance Bond. *The FIRST PARTY shall furnish the SECOND PARTY upon signing of the Agreement, a surety bond callable in favor of and upon demand by SHFC. Xxx The bond shall continue to be maintained in effect during the entire period of construction until the complete and final acceptance of the work.*

Article XII - *It is understood that time is 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.*

- 7.4 The Department of Interior and Local Government (DILG) transferred fund amounting to P350 million for the purpose of financing the construction of Micro Medium Rise Building (MMRBs) for the ISFs living along the waterways and danger areas of the metropolis. The identified projects as approved by DILG on March 3, 2018 was ALPAS II and the Jess Robredo Village.
- 7.5 The HOA D, E and F is an in-city type of project located at Tierra Benita, Sitio Panaklayan, Brgy. Muzon, San Jose del Monte, Bulacan which will house 546 ISFs. The MBs' origins are from Phases 10A and 10B, Bagong Silang, Caloocan, living under the waterways/danger areas of Marilao River, Bagong Silang River and Amparo Creek. The CA's choice of tenurial arrangement is through a usufruct agreement for a maximum period of 50 years.
- 7.6 Phase I (land acquisition) was approved by the Board of Trustees (BOT) under Board Resolution (BR) No. 517, series of 2016, for the 15,000 square meters (m²) valued at P1,533 per m², or a total purchase cost of P22,995,000, covered by Transfer Certificate of Title (TCT) No. 040-2014024001 registered under the name of Patricia Casas and eight (8) siblings. The amount of P18,396,000 or 80 per cent was released by SHFC on January 31, 2017 while the remaining 20 per cent will be released upon the transfer of the TCT in the name of SHFC.
- 7.7 The cost of Phase II (site development and house construction) amounting to P242,891,900 was approved by the BOT under BR No. 690, series of 2018. The Phase II Project is divided into three Clusters D, E and F, consisting of 24 three-storey building with loft and will benefit 546 ISF/MBs undertaken by Contractor A.

- 7.8 Total cost of the project is P269,177,600 consisting of the cost of lot, site development and housing construction and indirect costs. The loanable amount per MB amounted to P450,000. Details shown below:

Cost	Amount	Amount of Share per ISF/MBs
Phase I		
Direct Cost - Lot @P1,533/m ²	22,995,000	42,115
Indirect Costs:		
Subsidy - CSO Service fee	819,000	
Taxes	1,379,700	2,198,700
Administrative Cost (P2,000/ISF)	1,092,000	
	26,285,700	
Phase II		
Direct Costs:		
Site Development	18,000,000	32,967
Building Cost	204,705,000	374,918
	222,705,000	
Indirect Cost	20,186,900	
	242,891,900	
Total Costs	269,177,600	
Total Direct Costs (Phase I & II)	245,700,000	450,000

- 7.9 Review of the Building Construction and Site Development Agreement (BCSDA) entered into by and between Contractor A and HOA D, E and F disclosed that the site development and construction of 546 housing units shall be fully completed within one year from the release of the mobilization fund on December 14, 2018.
- 7.10 SHFC had released payments to Contractor A for the 15 per cent mobilization and 1st drawdown as follows:

Check No.	Date	Particulars	Amount	% of Accomplishment
67106	12/14/2018	15 % Mobilization fee	33,405,750	
67109	10/20/2019	1 st drawdown	10,078,416	4.53%
			43,484,166	

- 7.11 The 1st drawdown amounting to P10,078,416 has only 4.53 per cent accomplishment as at August 2019, which is already on its 8th month from the start of the Project based on the Approved Work Schedule and way below the supposed accomplishment of 32.90 per cent. Details of the approved work schedule target and actual accomplishment as per Memorandum of the OIC-Manager of HDH Luzon is shown on the next page:

Period (Month)	Approved Work Schedule				SHFC's Validated Actual Accomplishment		Variance	
	Planned		Cumulative		%	Amount	%	Amount
	%	Amount	%	Amount				
Jan 2019	0.20	445,410	0.20	445,410				
Feb 2019	0.20	445,410	0.40	890,820				
Mar2019	0.50	1,113,525	0.90	2,004,345				
Apr2019	1.30	2,895,165	2.20	4,899,510				

Period (Month)	Approved Work Schedule				SHFC's Validated Actual Accomplishment		Variance	
	Planned		Cumulative		% %	Amount	% %	Amount
	%	Amount	%	Amount				
May2019	3.50	7,794,675	5.70	12,694,185				
Jun 2019	6.10	13,585,005	11.80	26,279,190				
Jul 2019	9.20	20,488,860	21.00	46,768,050				
Aug 2019	11.90	26,501,896	32.90	73,269,946	4.53	10,078,416	28.37	63,191,530
Sep2019	12.70	28,283,536	45.60	101,553,482				
Oct 2019	11.90	26,501,895	57.50	128,055,377				
Nov 2019	10.90	24,274,845	68.40	152,330,222				
Dec 2019	9.20	20,488,860	77.60	172,819,082				
Jan 2020	7.00	15,589,350	84.60	188,408,432				
Feb 2020	5.90	13,139,595	90.50	201,548,027				
Mar 2020	4.60	10,244,431	95.10	211,792,458				
Apr 2020	2.90	6,458,455	98.00	218,250,903				
May 2020	1.30	2,895,165	99.30	221,146,068				
Jun 2020	0.70	1,558,935	100.00	222,705,003				
Total	100.00	222,705,003						

- 7.12 The project should have been completed in June 2020 based on the approved work schedule. The Audit Team has requested for an updated Accomplishment Report of the contractor duly validated by the Department of the Engineering of SHFC, however, as of report date, Management has not yet provided the required report. Hence, it cannot be ascertained if there is an increase in accomplishment.
- 7.13 Management thru the HDH Team in their Memorandum reply to our inquiry dated February 22, 2022 disclosed that on March 10, 2021, Contractor A informed SHFC that they cannot complete the project despite their diligent effort to sustain and continue the construction of the 24 buildings due to increase in material and labor costs.
- 7.14 HDH Team also disclosed that Contractor A stopped the construction activity without proper notice or approval from the SHFC. Contractor A is requesting for an additional time extension of 24 months or up to June 2022 to finish the project and additional funding to cover the price escalation of materials and labor. The request for the provision of additional fund for the construction will result in additional loans by the MBs.
- 7.15 Further validation disclosed that the Performance Bond (PB) posted by Contractor A for the mobilization fee had already expired because its validity is for one year only from December 4, 2018 to December 4, 2019. Management explained that they cannot ascertain if there is already a renewal of the PB since their files are incomplete. Management also informed the Audit Team that they are coordinating with the previous HDH team handling the project on the possibility of retrieving the documents still in their possession.
- 7.16 The Audit Team also requested for the updated accomplishment/inspection report on the project including the renewal of performance bond however, the requested documents are not yet submitted by Management as of report date.

7.17 Thus, the delay in the completion of the project deprived the MBs of decent and affordable housing. It also defeats the objectives of the HDHP, and there is a possibility of non-recovery of funds invested in housing.

7.18 **We recommended that Management:**

a. Institute measures to ensure timely completion of all projects such as:

- **Assign an engineer for each project who will monitor its timely completion within the agreed period as stated in the BCSDA to prevent additional loan funding or non-completion of the project; and**
- **Prospectively, devise a template to document the turn over of the project monitoring by the personnel assigned who was reshuffled to another department, to include, among others, the detailed list of documents and status of work to be reviewed and approved by their immediate supervisor to ensure continuity of work, and orderly and formal turnover.**

b. Require the CA to implement the following remedies against the Contractor as provided in Article XIV of the BCSDA:

- **Give a written notice to the Contractor to proceed with the work and to perform what is in the agreement; and**
- **If the Contractor fails to perform the work within seven days from receipt of the written notice, the CA and SHFC shall have the option to proceed against the bond and enter the premises and employ another contractor to complete the work at the expense of Contractor A.**

c. Require the CA to compute for and demand the payment of liquidated damages from the Contractor, pursuant to Article XII of the BCSDA;

d. Submit to the Audit Team updated Accomplishment Report of the Contractor duly validated by the Department of Engineering of SHFC; and

e. Require the Contractor to submit to the HDH Team in charge of the Project the documentation on the renewal of the performance bond as protection of SHFC from concerns such as contractors being insolvent before finishing the contract.

7.19 Management commented that they have already informed the HOA on the status of the project such as the work stoppage and request for additional funds by the Contractor to finish the project. However, HOA verbally manifested their intention to continue to tap the services of the present

Contractor. HOA also conducted a general assembly and explained to the MBs the status of the project and the request for additional funds to be shouldered by them, which the MBs agreed.

- 7.20 Also, Management commented that the HOA and the Contractor submitted documents related to the justification for the request of additional fund thru loans, and delays on the projects for review and evaluation by the HDH Team and Department of Engineering of SHFC for presentation in the MANCOM.
- 7.21 Management further commented that as a matter of continuity of the Project, the new basis for the computation of the new additional loan for HOA D, E and F will be based on the Department of Trade and Industry cost of construction materials for CY 2022 as approved by MANCOM. As such, a re-computation of the loan request will be made prior to its presentation to the Credit Committee and eventually will be presented to the SHFC Board of Trustees for approval subject to the conformity of the HOA.
- 7.22 Lastly, the remaining documents from the previous personnel assigned to the Project will be transferred to the new set of personnel assigned at HDH North. Also, Management had already informed the Contractor to renew their performance bond.
- 7.23 As a rejoinder, we stand on our recommendation that SHFC, thru its Department of Engineering and HDH Team, to religiously monitor the progress of the project to ensure its timely completion as agreed upon with the HOA. It will also prevent the MBs from availing additional loan and avoid slippage.

8. The lands costing P43.036 million for the Marawi site development housing projects turned over and awarded to the home partners/beneficiaries are not yet supported with Transfer Certificate of Titles (TCT) registered in the name of SHFC, contrary to MSP Corporate Circular No. 19-001, resulting in the delay of the individualization of titles and the risk of loss of funds invested in housing in case of third-party claimants.

- 8.1 Marawi Shelter Project (MSP) Corporate Circular No. 19-001, series of 2019, dated January 9, 2019, provides the following:

The Marawi Shelter Project is a sustainable development project which supports people displaced by the Marawi conflict in the rebuilding of resilient and peace-promotive shelter livelihood and community infrastructure. The project will be implemented using a community-driven approach to empower households whose homes have been completely destroyed by training them to become active actors in rebuilding their homes and communities. The SHFC shall be in charge of the land acquisition for the Project and to negotiate

with the landowners to facilitate a more advantageous transaction for the SHFC as well as to the beneficiaries of the Project.

Release of Payments

1. *Initial Release of 20 per cent proceeds*
 - *Extrajudicial settlement for properties with deceased landowners;*
 - *Official computation for payment of estate tax, real property tax, expenses for reconstitution of title, heirs bond, and other related expenses for the transfer of title;*
 - *Deed of Conditional Sales between SHFC and landowners; and*
 - *Letter of Commitment with the landowners.*
 2. *Release of 2nd tranche - 40 per cent proceeds*
 - *Owner's duplicate copy and Register of Deeds (RD) certified copy of reconstituted title;*
 - *Court Order for the reconstitution of title and issuance of new title; and*
 - *Deed of Absolute Sale between the landowner and SHFC.*
 3. *Release of 3rd tranche - 20 per cent proceeds*
 - *Owner's duplicate copy and RD certified copy of the TCT in the name of SHFC; and*
 - *Tax Declaration in SHFC's name.*
 4. *Last tranche - 20 per cent proceeds*
 - *Upon completion of the development of the property.*
- 8.2 On June 28, 2017, the President of the Philippines issued Administrative Order (AO) No. 3, creating an Inter-Agency Task Force for the recovery, reconstruction, and rehabilitation of the Marawi City and other affected localities. The said AO was amended by AO No. 9, series of 2017, dated October 27, 2017, re-organizing the Task Force Bangon Marawi, in order to reflect the government priority to rebuild and develop the settlement areas affected by the armed conflict wherein the Chairman of the Housing and Urban Development Coordinating Council is the Chairperson. The primary responsibility of the Inter-Agency Task Force is the immediate rehabilitation of temporary or permanent shelters, and the restoration of water, electricity and other utilities.
- 8.3 Considering the mandate of the SHFC to undertake social housing programs that will cater to the formal and informal sectors in the low-income bracket, SHFC initiated the implementation of a social housing project in Marawi City to support the National Government in the reconstruction and rehabilitation of the City.
- 8.4 The Government of the Philippines as represented by the SHFC (referred to as Government), and United Nations Human Settlement Programme

(referred to as UN-Habitat) have agreed to collaborate, thru a Memorandum of Understanding (MOU) signed in May 2018, in the shelter and community recovery programme in response to the Marawi siege under the “Project for Rebuilding Marawi through Community-Driven Shelter and Livelihood Support” which is being supported by the People of Japan. This focuses on the shelter and livelihood recovery of the most vulnerable families and communities affected by the Marawi siege. It also aims to provide the target beneficiaries a sustainable and livable community, thru funding from the Government of Japan and the Philippine Government.

- 8.5 Under the MOU, the government will allocate funds for the land acquisition and site development, whenever necessary, or provide land or project site when already available. On the other hand, UN Habitat will implement donor approved projects in accordance with UN rules and regulations.
- 8.6 One thousand five hundred (1,500) core shelters will be built for identified home partners organized under the project. SHFC submitted the proposal to the Office of Civil Defense (OCD) to fund the purchase of the lot and site development of the properties.
- 8.7 SHFC was able to purchase three lots for the Marawi Projects upon approval by the Office of the President the release of the National Disaster Risk Reduction Management (NDRRM) fund for the project. Details are shown below:

Lot	TCT	Area/ m ²	Board Approval	Acquisition Cost	Amount Disbursed	Percentage of Payment as of Report date
Phase I	RT 2010	22,625	BR 694 s 2018	6,221,875	1,744,375	28
Phase II	OCT P129	133,870	BR 694 s 2018	36,814,250	7,362,850	20**
Completed Projects				43,036,125	9,107,225	
Phase III	P-998	49,850	BR 855	14,955,000	4,486,500	30
Phase III	P-999	49,146	BR 855	14,743,800	4,423,140	30
On-going Projects				29,698,800	8,909,640	
Total				72,734,925	18,016,865	

** Fully paid due to reduction of lot area

- 8.8 Validation on the release of payments to the landowners/sellers for the cost of the lot disclosed the following:

- a. Phase I-

- The heir of the lot owner for Phase I with an area of 22,625 m² is the seller of the property. The TCT is under the name of the deceased father. The amount of P1,244,375 was paid in January 2019 representing 20 per cent of the cost of the lot with an acquisition cost of P275 per m².
- Examination of the TCT revealed that it is still under the name of the deceased original owner. On November 3, 2021, SHFC released the amount of P500,000 as part of the 2nd tranche through Board

Resolution No. 940, series of 2021. The basis of the approval by the Board of the interim payment is the submission of the retrieved copy of BIR certification showing that the property sold to SHFC was donated by the father of the deceased lot owner to his son, the seller, thus Extrajudicial Settlement is no longer necessary. This is also an interim measure to assist the landowner to facilitate the transfer of title in his name and eventually to the SHFC.

b. Phase II-

- TCT is in the name of the deceased lot owner of Phase II with an area of 133,870 m². The lot was purchased by SHFC from the heirs of the landowner represented by his son. The cost of the lot is P36,814,250 or P275/m². The amount of P7,362,850, representing 20 per cent of the cost, was released to the son/heir of the landowner in January 2019.
- Examination of the TCT revealed that the land has an area of 133,870 m² and free from liens and encumbrances. However, according to Management based on initial ocular inspection during the negotiation with the landowner, there is a “kubo” within the property. Upon release of the payment to the landowner, there were five clans allegedly claiming the property. One constructed a concrete housing unit in the property, others constructed their peripheral fence and others alleged that their relatives are buried on the site. Several negotiations and discussions, with the alleged claimants and the clans of the seller, were presided by the barangay captain, however, the alleged claimants were firm in their decision not to settle with the clans of the seller nor sell the property, hence, the seller initiated the resurvey of property through a surveyor. The resurvey resulted to a reduced area of the land to 67,571.70 m². The survey plan was validated by the field engineers of SHFC by just looking at the concrete monuments established by the surveyor.
- Based on the approved Terms of Reference (TOR) on the Site Planning and Development for Marawi Shelter Project, one of the deliverables of the Contractor is the relocation survey plans to determine the exact boundaries of the project. Thus, when the construction started, the Contractor conducted their own survey as part of their protocol and verified that the survey conducted by the surveyor was just a table survey and found out that only about 26,774 m² was the actual area to be developed without claimants.

c. Phase III-

- The amount of P8,909,640 was disbursed on March 30, 2021 representing 30 per cent of the total acquisition cost. The acquisition cost is P300 per m² and the corresponding TCTs are already under the registered name of the landowners/sellers. The site development project and construction of housing is on-going.

- 8.9 It was also observed, that for more than two years since the release of the first tranche of 20 per cent on the cost of the lot in January 2019 for Phase I and II, the landowners have not yet complied with the requirements for the release of the 2nd to 4th tranches of the payments. These include the owner's duplicate copy and RD certified copy of reconstituted title, Deed of Absolute Sale for the 2nd tranche, and owner's duplicate copy and RD certified copy of the title in the name of the SHFC, tax declaration in the SHFC's name for the 3rd tranche, which are all essential documents in the individualization of titles in the name of the approved home partners/beneficiaries.
- 8.10 Moreover, the two projects, Phase I - "Hadiya Village" consisting of 109 lots have already been turned over to the qualified home partners on February 25, 2021, while Phase II, "Darussalam Village" with 120 lots have already been turned over to the qualified home partners on July 28, 2021 through a Certificate of House and Lot Award signed by the Department of Human Settlements and Urban Development, Mayor of Marawi, SHFC and UN Habitat.
- 8.11 Thus, delay in the compliance by the landowners on the submission of duplicate and RD copies of TCT in the name of the SHFC and other documents as required in the MSP Circular, resulted in delay of the individualization of the TCT in favor of the qualified home partners and may expose the SHFC to possible risk of loss of funds invested in housing projects in case of third-party claimants.
- 8.12 **We recommended and Management agreed to:**
- a. **Facilitate the transfer of the ownership of the land to SHFC to hasten the individualization of the titles in the name of the qualified home partners/beneficiaries; and**
 - b. **Enhance the policy guidelines on Marawi Shelter Project by providing timeline within which the landowner/seller shall comply to the requirements stated in MSP Circular No. 19-001; and**
 - c. **As part of due diligence for future purchases of lot intended for housing projects, ensure that the lot to be purchased is properly inspected particularly the boundaries of the lots to prevent third party claimants.**
- 8.13 Management commented that the SHFC is exerting its effort to ensure the immediate transfer of the titles in the name of SHFC and eventually the ownership of the property to the individual beneficiaries of the Project. Management have also sought the assistance of the Local Government Unit (LGU) to assist the landowners in the conduct of relocation survey and in the compliance to other requirements for the transfer of TCT in the name of the seller and eventually in the name of SHFC.

9. **Unserviceable Property and Equipment (PEs) amounting to P12.908 million which have long been stored and occupying space in the warehouse for more than seven years remain undisposed, contrary to Section 79 of PD No. 1445 and COA Circular Nos. 2020-06 and 2004-008, resulting in further obsolescence and deterioration of property, non-use of storage to be occupied for other purposes and foregone possible income that would have been derived from disposal.**

- 9.1 Section 79 of PD 1445 on the destruction or sale of unserviceable property states that:

When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee an award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, xxx such price as may be fixed by the same committee or body concerned and approved by the Commission.

- 9.2 Also, Section 6.3.1 (h) of COA Circular No. 2020-006 provides that the Property Unit shall prepare Inventory and Inspection Report of Unserviceable Property (IIRUP) using the format prescribed under the Accounting Manuals of the respective Sectors for all PEs found unserviceable, obsolete and/or no longer needed.
- 9.3 Further, Annex A of COA Circular No. 2004-08 dated September 20, 2004 described Other Assets as those cost/appraised value of serviceable assets not used in operation and those waiting for disposal.
- 9.4 PE is unserviceable when the asset can no longer be repaired, or reconditioned, maintenance/repair cost outweighs the benefits and services, or has become obsolete or out-modeled.
- 9.5 Review of the Report on Physical Inventory of PE as at December 31, 2021 submitted by Management disclosed that there are PEs already unserviceable as reflected in the Status column. Further, it was noted that there is a significant increase of unserviceable properties in CY 2021, as shown below:

Description	Cost of Unserviceable PEs		
	12/31/2020	12/31/2021	Increase
Office Equipment	493,477	1,130,874	637,397
IT Equipment and Software	2,688,004	11,777,311	9,089,307
Total	3,181,481	12,908,185	9,726,704

- 9.6 According to Management, the IT equipment are already obsolete and phased out with slow memory because these were acquired as early as 2006 to 2012. They have inquired from TESDA if they are accepting unserviceable IT Equipment, however their offer was turned-down.
- 9.7 Management further disclosed that an IIRUP was prepared, however it is not updated.
- 9.8 The IIRUP provides the summary of all unserviceable properties of the SHFC which are subject for disposal. It also serves as one of the bases for derecognizing the unserviceable properties carried under PE account.
- 9.9 Inquiry from Management also disclosed that the Disposal Committee created in 2017 under OO No. 17-0692 did not pursue its disposal plan due to the pandemic. In addition, the Head of the Disposal Committee was assigned to handle the Recovery Project Department (RPD) that made it difficult to monitor the disposal process.
- 9.10 Thus, unserviceable PEs that remained undisposed for several years exposes the properties from further deterioration, precludes SHFC from getting a better price for its disposal, and prevents from using the occupied space for other purposes such as storage of official records.
- 9.11 **We recommended and Management agreed to:**
- a. **Direct the Inspection and Disposal Committee to facilitate the immediate and systematic disposal of PEs in accordance with existing rules and regulations in order to prevent further deterioration and maximize recoverable values/income therefrom;**
 - b. **Capacitate the Property Officer to ensure that documentary requirements needed for the disposal are timely updated and maintained properly; and**
 - c. **Prospectively, ensure that all unserviceable PEs are promptly acted upon by the Property Officer and Disposal Committee to avoid further deterioration of property and further non-use of the storage occupied for other purposes.**
- 9.12 Management commented that the Disposal Committee created in 2017 will be reconstituted in order to facilitate the disposal of the unserviceable PEs.
- 9.13 Also, the Property Officer will prepare the IIRUP in accordance with the prescribed format providing summary of all unserviceable properties of the SHFC to include those coming from the regional offices.
10. **The approval of the recommendation in the BAC Resolution on the award of contracts for 127 purchases thru Small Value Procurement as incorporated in the contracts/purchase orders amounting to P10.289 million was signed by**

SHFC Key Officers other than the President without explicit authority, contrary to Board Resolution No. 847, series of 2020, thus said act may not legally bind SHFC and the winning suppliers, and further casts doubt on the regularity of the transactions.

10.1 In Board Resolution No. 847, series of 2020, effective June 16, 2020, the Board approved the amendments to the expanded delegation of authority of Procurement process, to wit:

3. *The Head of the Procuring Entity (HOPE) for the approval of the award of contract upon recommendation of the Bids and Awards Committee (BAC) depends on the Approved Budget for the Contract (ABC) as follows:*

a) *For procurement items, particularly the goods, services and infrastructure projects **with an ABC of Php25Million and below**, the approval of the award of contract is **delegated to the President**;*

b) *For procurement items, particularly the goods, services and infrastructure projects **with an ABC of above Php25Million**, the **Board will approve the award of contract**.*

10.2 Section 5(t) of Republic Act (RA) No. 9184 and its 2016 Revised Implementing Rules and Regulations (RIRR) defines Head of Procuring Entity (HOPE) as either of the following:

(i) *the head of the agency or body, or his duly authorized official, for National Government Agencies (NGAs) and the constitutional commissions or offices, and other branches of government;*

(ii) *the governing board or its duly authorized official, for Government Owned and/or Controlled Corporations (GOCCs), Government Financial Institutions (GFIs) and State Universities and Colleges (SUCs); or*

(iii) *the local chief executive, for Local Government Units (LGUs)*

Provided, however, that in an agency, department, or office where the procurement is decentralized, the head of each decentralized unit shall be considered as HOPE, subject to limitations and authority delegated by the head of agency, department or office.

10.3 Under procedure No. vi of Annex H Item V(8) of the 2016 RIRR of said Act, the HOPE shall award the contract in favor of the supplier or contractor with the Single or Lowest Calculated and Responsive Quotation (for goods or infrastructure projects), or consultant with the Single or Highest Rated and Responsive Proposal (for consulting services). In case of approval, the

HOPE shall immediately enter into contract with the said supplier, contractor or consultant.

- 10.4 The Government Procurement Policy Board (GPPB) opined in NPM No. 049-2017 dated December 20, 2017 that the HOPE or his duly authorized representative shall immediately issue the Notice of Award to the bidder with the lowest calculated and responsive bid (LCRB). Said provision implies that the authority to issue or sign the NOA and NTP is not confined to the HOPE alone.
- 10.5 Validation of contracts/purchase order with Approved Budget for Contract (ABC) of P1 million and below revealed that 127 NOA amounting to P10,289,395 were signed by the SHFC Key Officers instead of the President, designated as the HOPE pursuant to Board Resolution No. 847, series of 2020, as shown below:

Approval Position and Designation	Member of BAC	No. of NOA signed	Contract Amount	Appropriate signatory?
Executive Vice President	No	89	8,606,656	No
Vice President	Chairperson	1	44,999	No
OIC - Vice President	No	9	514,524	No
OIC - Vice President	No	6	445,303	No
OIC - Vice President	No	7	299,607	No
OIC - Vice President	No	2	109,907	No
OIC - Vice President	No	3	72,820	No
OIC - Vice President	No	2	72,600	No
OIC - Vice President	No	5	56,274	No
OIC - Vice President	No	2	51,065	No
OIC - Vice President	No	1	15,640	No
Total		127	10,289,395	

- 10.6 Further, it was observed that one NOA for the supply and delivery of video camera amounting to P44,999 was approved by the HOPE who happens to be the BAC Chairperson contrary to Section 11.2.5 of the 2016 RIRR as follows:

"In no case shall the HOPE and/or approving authority be the Chairperson or a member of the BAC as it defeats the principle of conflict of interest."

- 10.7 Although, the HOPE is encouraged to delegate the authority to award the contract to any official of the Procuring Entity (PE), except to those where there exists conflict of interest such as the BAC Chairperson and members or the person authorized to negotiate the bidding. It bears stressing however, that before the representative signs and issues the NOA and NTP, he/she should have been fully authorized and properly clothed with legal authority to do so based on existing applicable laws.
- 10.8 Inquiry with the Management disclosed that the said Board Resolution authorizing the President of SHFC to approve all Award Notices with ABC of P25 million and below is not economic and efficient to implement the plans and programs of the Corporation, hence Management plans to

request an amendment/revision on the ABC threshold on the signing of award notices.

- 10.9 Thus, the signing of Officers other than the President of SHFC on the approval of recommendation in the BAC Resolution on the notices of award to 127 contracts amounting to P10,289,395 without expressed authority from the HOPE as prescribed in the Board Resolution 847, series of 2020, may not legally bind SHFC and the winning suppliers, and further casts doubt on the regularity of the transactions.
 - 10.10 **We recommended and Management agreed to ensure that only authorized signatories will approve the Notice of Award, Purchase Order and other related documents in accordance with Board Resolution No. 847, s. 2020.**
 - 10.11 Management commented that BR No. 847, series 2020, was issued specifically for the purpose of decentralizing several functions from the Office of the President to the Group Heads including the procurement process, thus the regional Vice Presidents were authorized to sign contracts for goods/services. The authority to sign contracts through Purchase Order has implied authority to sign all preliminary documents including the Notice of Award, thus, to interpret that the delegation authority excludes the NOA would necessarily defeat the purpose and essence of delegation.
 - 10.12 Lastly, Management will recommend amendment of the provision on the BR particularly on procurement to avoid further confusion.
 - 10.13 As an audit rejoinder, we wish to emphasize that the approval of the NOA and signing of the PO/contracts are two separate functions of the HOPE that requires express delegation of authority to signing officers. In fact, the Board distinctively delegated in the BR No. 847, s. 2020, the signing of contract and award notices to authorized officers as separate items. The Regional Vice Presidents are only authorized to sign PO and cannot go beyond their scope of authority granted by the Board.
 - 10.14 Therefore, we stand firm on our recommendation for Management to ensure that only those authorized signatories will approve the Notice of Award, Purchase Order and other related documents in accordance with the said Board Resolution.
- 11. The actual utilization/attribution amounting to only P267.912 million or 10.09 of the GAD Plans and Budget (GPB) is not in compliance with COA Circular No. 2021-008, and PCW/NEDA/DBM Joint Circular No. 2012-01, thus, reducing the opportunity of women and another concerned parties to participate and benefit from GAD PPAs.**
- 11.1 Section 1.0 of the COA Circular No. 2021-008 dated September 6, 2021 provides that:

The General Appropriation Act provides that the GAD Plan shall be integrated in the regular activities of the agencies with an allocation of at least five (5) percent of the agency's total budget/appropriations. Xxx.

- 11.2 Likewise, salient features of the PCW/NEDA/DBM Joint Circular No. 2012-01 which took effect beginning 2013 on the guidelines in the preparation of annual Gender and Development (GAD) Plans and Budget and Accomplishment Reports to implement the Magna Carta for Women follows:

6.1 At least five (5) percent 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).xxx

6.4 Attributing agency major programs to the GAD budget.

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 budget

- 11.3 Review of timelines on the deadline for GPB through the Gender Mainstreaming Monitoring System (GMMS) version 2 or 3 disclosed that Management was able to budget 20 per cent which is more than the required minimum five per cent GAD Budget Allocation. Likewise, Management has also complied with all the requested revisions in the GPB on November 02, 2021 and resubmitted to PCW within the prescribed/agreed deadline.
- 11.4 For CY 2021, the SHFC Annual GPB with the corresponding accomplishments as follows:

No.	Programs/Project/Activities	GAD Budget	Accomplishment Utilization/ Attribution	Per cent
Client-Focused Activities				
1	Conduct write shop/workshop on the review and enhancement of policies.	100,000	0	
2	Conduct gender-responsive Disaster Risk Management and Environmental Protection trainings/seminar/workshop	410,000	0	
3	Entrepreneurship/business development	720,000	0	
4	Conduct of customize capability training for the men and women community leaders of SHFC like a) community organizing; b) magna (Forward)	560,000	24,000	

No.	Programs/Project/Activities	GAD Budget	Accomplishment Utilization/ Attribution	Per cent
	carta of homeowners' association; c) ethical leadership; d) financial management; e) community performance audit; f) gender sensitivity training and orientation to related law; and g) conflict and dispute management			
5.	Conduct of training/seminar/workshop on the involvement of men and women in the elimination of violence and distribution of different advocacy materials to SHFC women and men member beneficiaries	200,000	21,200	
6.	Gender equality and Women Empowerment training/seminar for SHFC's CAs and "SERBISYO kay JUANA Participation	510,000	0	
7	Conduct Gender related training/seminar/deepening session in different SHFC Communities	430,000	0	
Sub-Total		2,930,000	45,200	1.54
Organizational-Focused Activities				
8	Conduct of orientation, training, refresher course, and workshop on fundamentals and basic gender concepts to SHFC employees	770,000	0	
9	Conduct of capability program/training/seminar/workshop on Gender Equality and Women Empowerment	80,000	8,118	
10	Conduct of gender analysis training for the men and women employees of SHFC	520,000	0	
11	Implementation of setting-up of all gender/GAD facilities and related sanctions	300,000	0	
12	GFPS to conduct the following GAD Assessment, GAD Planning and Budgeting, and Consultation with Internal and External Client	300,000	72,192	
13	GAD Agenda Crafting/GAD Strategic 6-Year Plan	240,000	343,396	
14	Conduct of Gender related trainings for leaders, board officers, executives, director, and other senior officer	300,000	0	
15	Conduct of gender-related trainings and refresher course to SHFC newly hired/regularized and agency hired employees	230,000	490,901	
16	Creation, production, dissemination and display of different gender and development advocacy, information, education, and communication materials	820,000	0	
17	Conduct of Capacity Building for the men and women employees on the use and development of sex disaggregated data collection	450,000	0	

(Forward)

No.	Programs/Project/Activities	GAD Budget	Accomplishment Utilization/ Attribution	Per cent
18	Employ agency-hired staff that will focus on the corporate wide	1,500,000	756,948	
	Sub-Total	5,510,000	1,671,555	30.34
	Subtotal-Client and Organizational-Focused Activities	8,440,000	1,716,755	20.34
	Attributed Program			
	Community Mortgage Program/High-Density Housing Program 2021 CMP and HDH Budget per GAA: P369,203,000	2,453,464,906	266,195,363	10.08
	TOTAL	2,461,904,906	267,912,118	10.09

- 11.5 Review of the GAD accomplishment of the SHFC for the CY 2021 disclosed that out of the seven client-focused activities with a budget of P2,930,000, only two activities amounting to P45,200 or 1.54 per cent were accomplished. On the other hand, for organization-focused activities, only five out of 11 activities amounting to P1,671,555 or 30.34 per cent of the GPB of P5,510,000 have been accomplished. Moreso, the SHFC has attributed the amount of P266,195,363 or 10.08 per cent of its GPB of P2,453,484,906 for its CMP and HDH Programs.
- 11.6 Further review disclosed that two activities exceeded their allocated budget in the GPB. The budget for GAD Agenda Crafting/GAD Strategic 6-Year Plan is P240,000, however per accomplishment report, the amount utilized was P343,396 which is higher than the budget by P103,396. For the gender-related trainings and refresher course to SHFC newly hired/regularized and agency hired employees, the GPB is P230,000, however per accomplishment report, the amount utilized amounted to P490,901.
- 11.7 Inquiry from Management disclosed that the increase in the actual utilization compared to the budget in the GAD Agenda Crafting/GAD Strategic 6 Year Plan pertains to the honoraria of the trainers who craft continually the GAD Strategic 6 Year Plan while the increase in the actual utilization in the conduct of gender-related trainings and refresher course to SHFC's newly hired/regularized and agency hired employees was due to the increased number of participants who were given refresher course.
- 11.8 Thus, low implementation, utilization, and attribution of the PPAs on the GPB reduced the opportunity of women and other concerned parties to participate and benefit from GAD PPAs.
- 11.9 **We recommended that Management:**
- Monitor properly the implementation of the planned GAD PPAs which should be done as scheduled within the budget year as approved by PCW; and**
 - Strictly adhere to the provisions of PCW/NEDA/DBM Joint Circular No. 2012-01 on the guidelines in the preparation of annual GPB**

and Accomplishment Reports to implement the Magna Carta for Women.

12. Changes in the modality of procurement of office/IT supplies and office equipment totaling P1.385 million in the Amended Annual Procurement Plan was not supported with a BAC Resolution approved by the HOPE, contrary to Section 7.2 and Annex H-Item IV(A) of the 2016 RIRR of RA No. 9184 thus, casting doubt on whether the actual mode used provided the most advantageous proposal or offers for the procurement.

- 12.1 Rule II - Procurement Planning of RA No. 9184, or the Government Procurement Reform Act, prescribing the necessary rules and regulations for the modernization, standardization, and regulation of the procurement activities of the National Government, provides that:

*Section 7.2. **No procurement shall be undertaken unless it is in accordance with the approved APP, including approved changes thereto.** The APP must be consistent with the duly approved yearly budget of the Procuring Entity and shall bear the approval of the HOPE or second-ranking official designated by the HOPE to act on his behalf. (Emphasis ours)*

- 12.2 Further, Annex H - Consolidated Guidelines for the Alternative Methods of Procurement of the 2016 RIRR, specifically Item IV(A), reiterated the rules on APP, to wit:

IV. GENERAL GUIDELINES

*A. **Annual Procurement Plan (APP). The method of procurement, e.g., competitive bidding or any of the alternative methods of procurement, to be utilized by the Procuring Entity shall be indicated in the APP to be approved by the HOPE.** If the original mode of procurement in the APP cannot be ultimately pursued, the BAC assisted by its Secretariat, the Technical Working Group (TWG), and by the appropriate End-User or relevant office, as the case may be, shall justify and recommend through a BAC Resolution such change in the mode of procurement to be approved by the HOPE. The changes must be reflected in the APP and submitted to the GPPB in accordance with Section 7.4 of the IRR of RA 9184. (Emphasis ours)*

- 12.3 Procurement planning is a vital component of the Procuring Entity (PE)'s budget process as this effectively manages and tracks the procurement up to the contract performance. This includes among others, the preparation and submission of the Annual Procurement Plan (APP) that meticulously and judiciously plots the procurements of the PE.
- 12.4 Accordingly, the APP is a document that consolidates the various Project Procurement Management Plans (PPMPs) submitted by the various Project Management Office (PMO) and end-user units within the PE. It

contains the following information prescribed in the APP format provided under GPPB Circular No. 07-2015:

- a) Name of the project/procurement;
- b) Project management office/end-user unit;
- c) General description of the project/procurement;
- d) Procurement methods to be adopted;**
- e) Time schedule for a) advertisement/posting; b) submission and receipt/opening of bids; c) award of contract; d) contract signing.
- f) Source of funds; and
- g) Approved Budget for the Contract. (*Emphasis supplied*)

- 12.5 One of the information specified in the APP is the procurement methods to be adopted by the PE. As a general rule, all government purchases should be done through public bidding, however, the Act recognizes that certain unique circumstances require the use of other modes of procurement to promote economy and efficiency. As required in the rules, the mode of procurement shall be indicated in the approved APP and this should be the modality to be followed by the PE.
- 12.6 Validation of DVs for the period January 1 to October 31, 2021 revealed that 29 out of the 129 sample purchases totaling P1,385,461 were actually done through a procurement method different from the modality reflected in the approved APP for FY2020 and FY2021. Details are as follows:

Procured Item	Mode of Procurement		With BAC Resolution on Change of mode	With HOPE approval on Change of mode	No of DVs	Amount
	Per Validation of APP	Per Validation of DVs				
FY2020 APP						
Office Supplies	NP-Sec.53.5 Agency to Agency	NP-Sec.53.9 SVP	None	None	2	P47,871
IT Supplies	NP-Sec.53.5 Agency to Agency	NP-Sec.53.9 SVP	None	None	4	100,894
FY2021 APP						
Office Supplies	Sec.52.1(b) Shopping	NP-Sec.53.9 SVP	None	None	9	410,311
IT Supplies	Sec.52.1(b) Shopping	NP-Sec.53.9 SVP	None	None	13	804,049
Subtotal					28	1,363,125
Office Equipment	NP-Sec.53.9 SVP	NP-Sec.53.2 Emergency cases	None	None	1	22,336
Grand Total					29	P1,385,461

- 12.7 As shown in the table above, a total of 28 purchases in FYs2020 and 2021 for office and IT supplies amounting to P1,363,125 actually used the SVP as indicated in the DVs validated by the Audit Team and not the Agency to Agency and Shopping methods authorized in the FYs2020 and 2021 APPs, respectively. On the other hand, the procurement method indicated

in one DV is Emergency Case under Negotiated Procurement instead of SVP method as prescribed in the APP.

- 12.8 The adoption of the revised procurement methods was only indicated in the BAC Resolution for the recommendation of award of contract in favor of the winning supplier which is being issued prior to the signing of contract. Said practice is contrary to Item IV (A) of Annex H, which requires that the change of procurement method must first be indicated in a BAC Resolution containing the justification for the change and thereafter be approved by the HOPE. The revised method must be reflected in the APP and consequently submitted within the deadline imposed by the GPPB in its Circular No. 02-2020 dated May 20, 2020, usually in July of the current year and January of the succeeding year for changes within the 1st and 2nd semester, respectively.
- 12.9 The Head of Procurement explained that there were no BAC Resolutions to support the change of the modality of procurement and the approval of the HOPE on the action of the BAC as these were already indicated in the POs.
- 12.10 The Audit Team does not agree because the POs do not contain the required justification and have no signatures of all the BAC members. The PE may decide to change the modality of procurement and pursue another acceptable mode if the original mode is not feasible provided it is justified through a BAC Resolution and such change is approved by the HOPE and reflected in the APP.
- 12.11 Thus, SHFC's non-adherence with the procurement method specified in the approved APP and non-updating of its APP to reflect the change in procurement modality duly approved by the HOPE in the purchase of office/IT supplies and office equipment amounting to P1,385,461 is contrary to Section 7.2 and Annex H Item IV(A) of the 2016 RIRR of RA No. 9184, casting doubt on whether the actual mode used generated the most advantageous proposal or offer for the procurement.
- 12.12 **We recommended and Management agreed to prospectively ensure that all procurements shall be undertaken in accordance with the approved APP. Any changes must be accompanied by a BAC Resolution providing for a justification and the required approval of the HOPE before undertaking actual procurement in accordance with Section 7.2 of the 2016 RIRR of RA No. 9184 and said changes in the APP shall be submitted to the GPPB on the timelines set in Section 7.4 of the same RIRR.**
- 12.13 Management commented that the PS-DBM often neither have the stocks of the requested items of end-user units in their virtual store nor have satellite offices in regions. Likewise, the BAC requires the end-users to secure proof of non-availability of stocks or certificate of absence of branch in their locality which will now be the basis of the BAC to allow the change in the procurement method.

12.14 Further, the Management mentioned that they will now implement a quarterly instead of semestral review of their APP to ensure that changes will be reflected therein and thereafter submit the revised APP to the GPPB in accordance with the rules.

13. **A total of 28 POs for the requisition of office and IT supplies amounting to P1.363 million were entered into with various suppliers through SVP under Negotiated Procurement mode without first satisfying the conditions set forth under Section 53.9 and Annex H-Item V(D)(8) of the 2016 RIRR of RA No. 9184, thus affecting the propriety of the transactions.**

13.1 Section 53.9 of the 2016 RIRR of RA No. 9184 defines that:

53.9 Small Value Procurement. *Procurement of Goods, Infrastructure Projects and Consulting Services, where the amount involved does not exceed the threshold prescribed in Annex H of this IRR; Provided, That in case of Goods, **the procurement does not fall under shopping in Section 52 of this IRR.** (Emphasis ours)*

13.2 Annex H - Consolidated Guidelines for the Alternative Methods of Procurement of the 2016 RIRR of RA No. 9184, specifically Item V(D)(8), further defines the SVP as follows:

8. SMALL VALUE PROCUREMENT (SVP)

a) **Definition.** *Procurement of (a) goods not covered by Shopping under Section 52 of the IRR of RA 9184, (b) infrastructure projects, and (c) consulting services, where the amount involved does not exceed the following threshold:*

i. *For NGAs, GOCCs, GFIs, SUCs, and Autonomous Regional Government, One Million Pesos (P 1,000,000) xxx*

13.3 Meanwhile, Section 52 of the RIRR of the same Act provides that:

52.1 *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 of procurement shall be employed in any of the following cases:*

a) *When there is an unforeseen contingency requiring immediate purchase: Provided, however, That the amount shall not exceed the thresholds prescribed in Annex "H" of this IRR.*

b) Procurement of ordinary or regular office supplies and equipment not available in the Procurement Service involving an amount not exceeding the thresholds prescribed in Annex “H” of this IRR.

52.2 The phrase “ordinary or regular office supplies” shall be understood to include those supplies, commodities, or materials which are necessary in the transaction of official business, and consumed in the day-to-day operations.

X.

- 13.4 Section 53.9 provides that only those goods not considered as ordinary or regular office supplies which falls under Shopping can adopt the SVP method. Accordingly, ordinary/regular office supplies such as office and IT supplies shall be undertaken through modernized PhilGEPS Virtual Store of the Department of Budget and Management - Procurement Service (DBM-PS) pursuant to Section 8 of RA No. 9184 and GPPB Resolution No. 20-2018. This falls under Agency-to-Agency alternative method.
- 13.5 Procurement from other sources/supplier through Shopping under Section 52.1(b) or in emergency case under Section 52.1(a) can only be undertaken if the items are not available in the Virtual Store. GPPB Resolution No. 17-2020 however, requires the Procuring Entity to keep a record of the proof of unavailability of the Common-Use Supplies and Equipment (CSE) as shown in the PS website, such as a printed form of the webpage or a screenshot of the same showing the date and time that it was accessed.
- 13.6 Verification of the POs as of October 31, 2021 disclosed that a total of 28 contracts which consists of 11 POs for Office Supplies amounting to P458,182 and 17 POs for IT Supplies amounting to P904,943, or a total of P1,363,125, were undertaken through SVP. Upon further review of other related attachments, we noted that the items procured are considered ordinary/regular office supplies based on their description/nature as detailed below:

Procured Items	Various Item Descriptions	Mode of Procurement Per PO	Goods Covered by Shopping	Checked Availability of Items in PS-DBM	No of POs	Amount
Office Supplies	Bond Paper, Storage Box, Record book, Ring binders, etc.	NP-Sec.53.9 SVP	Yes	No CNAS* or any other proof	11	458,182
IT Supplies	Printer Toner & Ink Cartridges, UTP Cable, External Hard Drive, etc.	NP-Sec.53.9 SVP	Yes	No CNAS or any other proof	17	904,943
Total					28	1,363,125

*CNAS – Certificate of Non-Availability of Stocks

- 13.7 As shown in the above table, the items procured are ordinary and regular supplies which can be procured at PS-DBM. In the event that the PS-DBM

has no available stock, Shopping method can be resorted to. However, further verification showed that there is no proof to support that SHFC checked the availability of items in the PS-DBM Virtual Store. Moreover, Management asserted that they resorted to SVP for the procurement of regular supplies due to the difficulty of obtaining three quotations from the suppliers.

13.8 Thus, the SVP method was improperly used by Management in the procurement of office and IT supplies because the items procured are CSEs, contrary to Section 53.9 of the 2016 RIRR of RA No. 9184, thus, affecting the propriety of the transactions.

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

- a. **Use appropriately the SVP as alternative procurement method for goods that satisfy the conditions provided in Section 53.9 and Annex H-Item V(D)(8) of the 2016 RIRR of RA No. 9184; and**
- b. **Prospectively, ensure that the suitable mode of procurement is adopted based on the specific conditions provided in the same Act for all purchases of SHFC.**

13.10 Management commented that the end-user units consolidate the items considered as ordinary office supplies and equipment, and goods covered by SVP in one purchase request. In case items are not available in the PS-DBM virtual store, said ordinary office supplies and equipment are also purchased through SVP to avoid further splitting the request and in order to get the best and lowest price by purchasing them in bulk.

13.11 Management further commented that they will issue a memorandum to the Head and Regional Offices to separate their request for each type of goods to be procured, and a list of ordinary office supplies/equipment that are usually available in PS-DBM and customized items covered by SVP mode in order to correct the said practice.

13.12 As a rejoinder, the CSEs and mode of procurement to be undertaken can already be identified in the consolidated APP prepared by the BAC.

14. Purchases of 29 units of IT Equipment amounting to P0.771 million have tailor-fitting technical specifications, while 27 units of various goods amounting to P0.445 million are with specific product brand indicated in the procurement documents, contrary to Section 18 of the 2016 RIRR of RA No. 9184, which may result in undue advantage to bidders and defeats the principle of fairness and equal competition in the procurement process.

14.1 Section 18 of the 2016 RIRR of RA No. 9184 states that:

Section 18. Reference to Brand Names

*Specifications for the procurement of Goods shall be based on relevant characteristics, functionality and/or performance requirements. **Reference to brand names shall not be allowed** except for items or parts that are compatible with the existing fleet or equipment of the same make and brand, and to maintain the performance, functionality and useful life of the equipment.*

This Section shall also apply to the goods component of Infrastructure Projects and Consulting Services. (Emphasis supplied)

- 14.2 The Government Procurement Policy Board (GPPB) further discusses said provisions in its Non-Policy Matter Opinion embodied in NPM No. 041-2015, to wit:

Section 18 of RA 9184 and its IRR mandates that reference to brand names shall not be allowed and thus, specifications for the procurement of goods shall be based on relevant characteristics and/or performance requirements. This mandate cannot be circumvented by setting specifications that point out to only one brand of goods or items, though without mentioning the name of the brand.

xxx

*While PEs can make technical specifications in their bid documents more detailed, **they cannot, however, "tailor fit" to a particular brand** because it defeats the very essence and purpose of competitive bidding. (Emphasis supplied)*

- 14.3 One of the governing principles of government procurement is competitiveness. A competitive bidding extends equal opportunity to enable contracting parties who are eligible and qualified to participate in the bidding. Competition will encourage the bidders to offer more beneficial terms to the government.
- 14.4 Likewise, the 2016 RIRR of said Act prohibits the purchase of goods made with reference to brand names since it restricts competitiveness of bids among the proponents. Moreover, imposing a specific brand name on the item to be procured defeats competition as this limit the bidders who may want to join and prevents the other legally, technically and financially capable suppliers, contractors, and consultants from participating in government biddings.
- 14.5 Verification of DVs together with POs and other related attachments as of October 31, 2021 showed that SHFC entered into two POs/contracts for the supply and delivery of 29 units of IT equipment amounting to P770,903 with design and technical specifications indicated in the Purchase Request

(PR). Further, Requests for Quotation (RFQ) were too specific and detailed with reference to particular brands, as presented below:

DV No.	PO No.	Supplier	Item Description in the PR, RFQ to PO	Brand Name and Model	QTY	Amount
2021061875	2021-05-089	Advance Solutions Inc.	Tablet-10.4 inches (200X2000 pixels) IPS LCD Touchscreen; 4G LTE sim card slot, Android OS, 3GB RAM, 64GB ROM WiFi802.11 a/b/g/n/ac 2.4G+5GHz, Rear Camera Reso 8.mp	Samsung Galaxy Tab A7 10.4" SM-T505	28	P445,332
2021082308	2021-07-014	Agile Techfrontier Corporation	Front end server: Processor: x2 Intel Xeon Silver 4210R 2.4G, 10C/20T, 9.6 GT/S 13.75 M Cache, Turbo, HT (100W) DDR4-2400; Memory: 32gb RDIMM, 3200 MT/S, Dual Rank (24 DIMM Slots); PERC H730 RAID Controller, 2GB NV Cache, Mini Card; HD: 320gb 10k RPM SAS 12gpbs 512n 2.5in hot plug hard drive; DVD+/- RW, SATA, Internal; single, hot-plug power supply, among others	DellEMC PowerEdge R740 Server	1	325,571
Total					29	P770,903

14.6 Moreover, review disclosed that all participating suppliers offered their price quotations for the same brand and model namely: Samsung Galaxy Tab A7 10.4" SM-T505 and DellEMC PowerEdge R740 Server. This signifies that the description and specifications indicated in the RFQs tailor fitted certain product trade names.

14.7 GPPB clarified in NPM No. 041-2015 that the Procuring Entity is not allowed to make detailed specifications in their bid documents that tailor fit to a specific brand name since it will prevent the PE to purchase from other product brands that can offer lower prices.

14.8 On the other hand, the Audit Team noted that SHFC explicitly included the tradename of a product in the PR and RFQ for the procurement of 27 units of various goods amounting to P444,509, as shown below:

DV No.	PO No.	Supplier	Item Description in the PR, RFQ to PO	Brand Name	QTY	Amount
2021051425	2021-04-057	Teslinque Computer Sales Center	AWP UPS - AWP 2,000 VA UPS	American Wise Power Technologies (AWP)	4	26,121

(Forward)

DV No.	PO No.	Supplier	Item Description in the PR, RFQ to PO	Brand Name	QTY	Amount
2021092574	2021-08-012	G. Force Enterprises	AWP UPS - 650 KVA	American Wise Power Technologies (AWP)	1	1,751
			printer - Laser printer with scanner EPSON L6170	EPSON	1	15,607
2021051276	2021-04-053	Silicon Valley Computer Group Phils., Inc.(Legazpi Branch)	UPS with AVR Unit - Emerson Brand 450 VA	Emerson	2	3,975
			Printer - EPSON L3110 Colored Printer/Scanner	EPSON	1	7,188
2021051373	2021-04-045	Asian Appliance Company Inc. (Cebu Branch)	CCTV Installation - Sony TV (Internet TV)	Sony TV	1	18,928
2021010268	2020-12-152	IE Creative Computers	Laptop - Acer Swift 5 SF514-51; Core i5/i7; 4GB/8GB; 515 GB Windows 10	Acer Swift	1	37,856
2021061768	2021-05-074	Epartners Solutions Inc.	Power Supply HP Pro 3330SFF	HP	3	17,036
2021061562	2021-05-070	RNET and RJ4 General Merchandise	Printer - EPSON multifunctional solution 3in1(print, scan, copy) L3110	EPSON	3	42,589
2021102868	2021-09-001	First Data Corp	Adobe Creative Cloud - All Apps	Adobe	2	112,246
2021072165	2021-06-014	Maitilink Systems, Inc.	External Hard Disk 2TB Seagate Expansion Black; Portable Hard Drive Type; HDD dimension: 117x80x14.8 mm	Seagate	2	9,086
2021051411	2020-12-142	Kelvin Crystal Office & School Supplies Trading	Camera - Cannon 100D Small Form Factor DSLR weighing 400g; 18 MP APS-C sensor with 14 bit DIGIC 5 processor; Hybrid CMOS AF II System with 80% frame coverage; ISO 100-12800, etc.	Canon 100D	1	31,415
2021020366	2020-12-151	Desmark Corporation	Split Type Aircon - Sharp 2.5 hp	Sharp	1	38,960
2021061881	2021-06-009	Roll Electronics	Water Dispenser - Everest	Everest	1	5,312
			Air conditioning Split Type TCL 2.5 HP	TCL	1	38,556
			Television 55 inches TCL	TCL	1	27,645
2021061758	2021-06-003	GMO GlobalSign Inc.	3 years Alpha SSL, Standard SSL Certificate shfc.dhsud.gov.ph	Alpha	1	10,238
Total					27	444,509

14.9 Further evaluation and review of the procurement documents revealed that the exceptions indicated in Section 18 of the 2016 RIRR of RA No. 9184 do not apply to the listed purchases of 56 units of various goods totaling P1,215,412 since it is neither compatible with the existing fleet or

equipment of the same make nor used to maintain the performance, functionality and useful life of the equipment.

- 14.10 Lastly, we wish to mention that a total of three PRs received from different end-users, and RFQs sent to suppliers and published in the PhilGEPS website for the requisition of five units of various items amounting to P258,674 were prepared with reference to brand names, however different product brands from the winning supplier were purchased as reflected in the Summary of Bids and POs. Details are as follows:

DV No.	PR No.	Supplier	Item Description in PR and RFQ	Brand Name in PR and RFQ to PO	QTY	Amount
2021030721	2020-11-361	Winter Cool Ref & Aircon Services and Trading	Split Type Aircon - 3.0 hp D Smart Inverter Queen Series	Daikin Smart Queen Inverter Series (Winning Brand: LG)	2	P148,589
			Split Type Aircon - 2.5 hp D Smart Inverter Queen Series	Daikin Smart Queen Inverter Series (Winning Brand: LG)	1	57,259
2021082382	2020-10-327	Henry's Professional Photo Marketing Inc.	Camera Panasonic HC WXF99iK Video Camera	Panasonic (Winning Brand: Sony)	1	42,588
2021041220	2020-08-232	GMO Global Sign Inc.	SSL Certificate - 3 years validity Comodo/Sectigo Certificate	Comodo/Sectigo (Winning Brand: Alpha SSL)	1	10,238
Grand Total					5	P258,674

- 14.11 Although the brand names as specified by SHFC in the PRs and RFQs were not followed by the winning bidders in the above-listed purchases, the BAC must carefully craft the specifications to ensure that they will get the proper goods to satisfy their requirements and foster broad participation among all possible suppliers. Specifications must be based on performance requirements and industry standards to prevent undue preference to specific brands of goods or products.
- 14.12 Thus, SHFC's non-compliance with the rules on reference to brand names for the purchase of 56 units of various goods and supplies totaling P1,215,412 is contrary to Section 18 of the 2016 RIRR of RA No. 9184, and may result in undue advantage to bidders and defeats the principle of fairness and equal competition in the procurement process.
- 14.13 **We recommended and Management agreed to stop the practice of incorporating product brand name and/or specific technical requirement tailor fitting the description in the procurement in any of the bidding documents in accordance with the provisions of Section 18 on Reference to Brand Name of the 2016 RIRR of RA No. 9184 to ensure competitive bidding among interested suppliers.**

14.14 Management commented that the matter of reference to brand names was inadvertently an oversight by the Procurement Division and BAC Secretariat due to voluminous requests and workload. Management further commented that a reminder shall be issued to all the requesting end-user units to adhere to the procedures under the Procurement rules and regulations.

15. Thirty-three (33) units of property and equipment and 11 semi-expendable supplies amounting to P1.009 million were delivered and accepted by SHFC prior to the start of the procurement process through SVP, contrary to Annex H-Item V (D)(8)(b) of the 2016 RIRR of RA No. 9184, thus renders doubtful the legality and propriety of the transaction and depriving SHFC to get the lowest possible price from the supplier.

15.1 Annex H on the Consolidated Guidelines for the Alternative Methods of Procurement of the 2016 RIRR of the said Act, specifically Item V(D)(8)(b), prescribes the following procedures on SVP, to wit:

- i. The End-user shall submit a request for SVP to the BAC, which indicates the technical specifications, scope of work, terms of reference, ABC and other terms and conditions.*
- ii. The BAC shall prepare and send the RFQs/RFPs to at least three (3) suppliers, contractors, or consultants of known qualifications. This, notwithstanding, those who responded through any of the required postings shall be allowed to participate. Receipt of at least one (1) quotation is sufficient to proceed with the evaluation thereof.*
- iii. Except for those with ABCs equal to Fifty Thousand Pesos (P50,000) and below, RFQs shall be posted for a period of three (3) calendar days in the PhilGEPS website, website of the Procuring Entity, if available, and at any conspicuous place reserved in the premises of the Procuring Entity.*
- iv. Pre-bid conference may be conducted at the discretion of the BAC in order to clarify and/or explain any of the requirements, terms, conditions and specifications stipulated in the RFQ/RFQP.*
- v. After the deadline for submission of quotations/proposals, an Abstract of Quotations/Ratings shall be prepared setting forth the names of those who responded to the RFQ/RFP, their corresponding price quotations/ratings.*
- vi. The BAC shall recommend to the HOPE the award of contract in favor of the supplier or contractor with the Single or Lowest Calculated Bid and Responsive Quotation (for goods or infrastructure projects), or consultant with the Single or Highest Rated and Responsive Proposal (for consulting*

services). In case of approval, the HOPE shall immediately enter into contract with the said supplier, contractor or consultant.

- 15.2 Generally, procurement process involves various activities to be taken in step-by-step order. This usually starts with the procurement planning, followed by the submission of purchase request and preparation of bid documents. Then PE shall conduct the procedures on the procurement method adopted either through public bidding or any of the appropriate alternative modes provided and ends with contract implementation and procurement monitoring.
- 15.3 Review of the transactions on the procured property and equipment and semi-expendable supplies thru alternative mode of procurement - SVP by SHFC for the period January to October 2021 disclosed that 44 units of air purifiers totaling P1,009,580, consisting of 33 units of office air purifier – *5 Stage Disinfection and Purification System* amounting to P995,280 and 11 units of additional personal air purifiers amounting to P14,300, were delivered on the same day and 36 days prior to the start of procurement, respectively. The Supplier was then awarded with the contract 19 and 50 days after the goods have been delivered and accepted. Details are summarized below:

Particulars	Supply and Delivery of Office Air Purifier	Supply and Delivery of Personal Air Purifier
Disbursement Voucher No.	DV No. 2021061572	DV No. 2021051544
Supplier	Hygieia Innovations and Technology Inc	ASX Trading
Item Description	Air Purifier - 5 Stage Disinfection and Purification System	Additional Portable Air Purifier
Delivery and Acceptance Date	March 31, 2021	March 1, 2021
Date Request for Quotation (RFQ) sent and posted	March 31, 2021	April 6, 2021
Days from delivery and acceptance date to posting of RFQ	0	36 days
Notice of Award issuance date	April 19, 2021	April 20, 2021
Days from delivery and acceptance date to award of contract	19 days	50 days
Quantity	33	11
Contract Amount	P995,280	P14,300
Total Units		44
Total Amount		P1,009,580

- 15.4 According to Management, the supplier insisted the delivery of the air purifiers beforehand as these might run-out of stock because the items are imported and takes one to two months of shipment.
- 15.5 We emphasize that all government agencies and entities are mandated by law to adhere to the rules on procurement in purchasing goods and services. RA No. 9184 was enacted to promote transparency, accountability, equity, efficiency, and economy in the procurement process which are detailed in Section 3 of the 2016 RIRR of RA No. 9184. The absence of such compliance increases the risk of awarding the contract to an ineligible bidder whose capability and performance may be of doubtful character. It also raises the risk of possible legal action by other Suppliers

for breach of the procurement rules. Further, the Procuring Entity may not be able to get the most advantageous offer suitable for their needs and may affect the Procuring Entity's public perception.

- 15.6 Allowing the suppliers to deliver in advance and prior to the conduct of procurement process runs counter to the procedures provided in Annex H of the 2016 RIRR of RA No. 9184 and renders doubtful the legality and propriety of the procurement and further, deprives SHFC the opportunity to get the lowest possible price from the supplier.
- 15.7 **We recommended and Management agreed to complete the procurement process before accepting delivery of goods from suppliers and strictly adhere to the procurement process provided for in Annex H on the Consolidated Guidelines for Alternative Methods of Procurement of the 2016 RIRR of RA No. 9184, specifically Item V(D)(8)(b).**
- 15.8 Management assured that they shall issue a reminder to all end-users to refrain from the practice of accepting advance delivery of goods and shall strictly observe the procedures provided in the procurement rules and regulations.

16. The Contract for the Supply and Delivery of Office Air Purifier amounting to P0.995 million was awarded to a Supplier who failed to submit the Lowest Calculated Bid and responsive quotation, contrary to the 2016 RIRR of RA No. 9184, Item V(D)(8)(b) and Appendix A both of Annex H, respectively, thus affecting the legality and propriety of the procurement process and validity of the Agreement.

- 16.1 Annex H Item V(8)(b) of the 2016 RIRR of RA No. 9184 prescribes the Procedures on SVP as follows:

X.

b. Procedure

X.

v. After the deadline for submission of quotations/proposals, an Abstract of Quotations/Ratings shall be prepared setting forth the names of those who responded to the RFQ/RFP, their corresponding price quotations/ratings.

*vi. **The BAC shall recommend to the HOPE the award of contract in favor of the supplier or contractor with the Single or Lowest Calculated Bid and Responsive Quotation (for goods or infrastructure projects), or consultant with the Single or Highest Rated and Responsive Proposal (for consulting services). In case of approval, the HOPE shall***

immediately enter into contract with the said supplier, contractor or consultant. (Emphasis supplied)

- 16.2 A responsive quotation, though not specifically defined by the rules, generally pertains to the Supplier who has satisfactorily complied with the Procuring Entity's legal, technical, and financial requirements. Meanwhile, the Single or Lowest Calculated Bid is determined by conducting a bid evaluation through establishing the correct calculated prices and ranking of the total bid prices, as so calculated, from the lowest to the highest.
- 16.3 The Audit Team noted that the bid proposal from a certain supplier amounting to P995,280 was higher as compared to the price quotation received from the other supplier amounting to P891,000. The price quotation from the latter is lower by P104,280 or 10 per cent than that of the former's price proposal. In the summary of bids, it was not indicated whether the other bidders with lower bids met the technical specifications thus, their compliance is of doubtful character.
- 16.4 Further, the former also failed to submit a duly accomplished Omnibus Sworn Statement (OSS) prior to the awarding of contract, which is one of the mandatory legal requirements imposed under Appendix A of Annex H of the 2016 RIRR. It was also noted that the OSS was dated July 21, 2021 after the issuance of NOA and perfection of the PO/contract on April 19, 2021. Failure to submit the required OSS is a ground for disqualification and as such, the BAC should have rendered a non-compliant finding on the Abstract of Quotation/Summary of Bids for the former's ineligibility for the awarding of contract.
- 16.5 The above circumstances show that the BAC failed to recommend to the HOPE the awarding of contract to the bidder with the lowest calculated bid and responsive quotation, contrary to Item V(8)(b)(vi) of Annex H of 2016 RIRR of RA No. 9184.
- 16.6 Thus, the awarding of the aforementioned contract to the non-responsive bidder is contrary to the rules on SVP under Annex H of the 2016 RIRR of RA No. 9184 and affects the regularity of the procurement process and validity of the Agreement.
- 16.7 **We recommended and Management agreed to:**
- a. **Cautiously evaluate the qualifications provided in the proposal of the suppliers and ensure that the winning supplier is compliant with the legal/documentary requirements of SHFC and offers the lowest calculated and responsive quotation; and**
 - b. **Prospectively, ensure that necessary documentary requirements are submitted by the supplier before the awarding of contract as required under Annex H of the 2016 RIRR of RA No. 9184.**

- 16.8 Management commented that the prospective bidder must have submitted the lowest and responsive bid as a requirement before an award of contract. Upon BAC evaluation of bids, the other supplier/bidder price quotation happens to be the lowest bid price but not responsive with the technical specifications indicated in the RFQs. The winning supplier/bidder might not have the lowest bid, but the said supplier offered the item that is responsive to the specification required by end-user units.
- 16.9 On the other hand, Management clarified that due to the sheer volume of procurement activities during pandemic, they inadvertently failed to follow-up the OSS from the winning supplier hence, submitted only after the award of contract.
- 16.10 We stand on our recommendation for Management to be more cautious in the evaluation of the RFQs/FRPs and award only the contract to a bidder with the lowest calculated and responsive bid in accordance with applicable procurement rules and regulations.

17. Status of Suspensions, Disallowances and Charges

- 17.1 The total audit disallowances and settlements are shown below, while there are no suspensions or charges as at December 31, 2021:

Particulars	Balance, 1/1/2021	Issued (January to December 2021)	Settlement (January to December 2021)	Balance, 12/31/2021
ND	76,629,312	0	160,500	76,468,812

- a. ND No. 2019-01(2018) dated October 17, 2019 pertaining to the payment of Collective Bargaining Agreement, which is under appeal per CGS Decision No. 2020-12 dated July 30, 2020, has an outstanding balance of P5,280,000. Settlement for the year amounting to P202,500 was deducted from the last salary of retired/resigned employees.
- b. ND No. 2017-01-CIB- TD (2016) dated February 9, 2018 amounting to P71,030,479 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. An adjustment amounting to P42,000 as result of reconciliation of records with the FCD. The adjusted balance of P158,333 as at December 31, 2021 refers to the uncollected amount from the resigned/retired employees.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 58 audit recommendations for both SHFC and AKPF embodied in the CY 2020 Annual Audit Report, 25 were fully implemented, 27 were partially implemented of which 10 were reiterated in Part II of this Report, and six were reconsidered. Details are presented below:

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
A. Social Housing Finance Corporation			
<u>CY 2020</u>			
Observation No. 1, page 51	1. Undistributed Collections (UC) totaling P452.252 million remained un-posted to the Mortgage Contracts Receivable (MCR) account overstating both the Other Payables and the MCR accounts by the same amount as at December 31, 2020.	a. Submit a work breakdown schedule to post and allocate UC by at least:	Both are partially implemented
		i. 50 per cent by end of CY 2021	Reiterated with modification in Observation No. 1, Part II of this Report.
		ii. 50 per cent by end of CY 2022; and	
		b. Require the ICTD to facilitate the enhancement of 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. This observation was first raised in the AAR for CY 2010 and reiterated in CYs 2011 to 2020.
Observation No. 2, page 54	2. The requirements of PFRS 9 on Financial Instruments were not complied with, thus, the balances of various financial asset accounts totaling P21.179 billion as at December 31, 2020 are misstated by undetermined amounts.	a. Formulate an accounting policy on financial instruments which is aligned/compliant with the requirements of PFRS 9.	Partially implemented Reiterated with modification in Observation No. 2, Part II of this report.
		b. Accordingly, apply said policy in the classification, measurement and impairment	Partially implemented

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
		of the financial instruments of SHFC.	Reiterated with modification in Observation No. 2, Part II of this report. This observation was first raised in the AAR CY 2016 and reiterated in CYs 2017 to 2020.
Observation No. 3, page 60	3. The present value of expected payments to cover future retirement benefits of SHFC's employees was not measured, recognized and disclosed regularly in the books as benefit cost and benefit obligation, contrary to PAS 19 on Employee Benefits, 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/avilment period and which has likewise an adverse impact on cash flows.	a. Recognize in the books the present value of expected payments to cover future retirement benefits as expense and liability, pursuant to PAS 19;	Partially implemented Reiterated with modification in Observation No. 3, Part II of this report.
		b. Disclose in the Notes to Financial Statements pertinent and necessary information required under paragraph 135 of PAS 19 on Employee benefits; and	Partially implemented Reiterated with modification in Observation No. 3, Part II of this report.
		c. Seek assistance from a qualified actuary service 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.	Fully implemented This observation was first raised in the AAR CY 2016 and reiterated in CYs 2017 to 2020.

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
Observation No. 4, page 64	4. Trust fund amounting to P10.360 million received from the Department of Social Welfare and Development (DSWD) for the shelter needs of families whose houses were damaged by Typhoon Sendong remained unutilized for almost five years, contrary to the Memorandum of Agreement (MOA) between DSWD and SHFC and Section 4(3) of PD 1445, resulting in the failure to address the immediate needs for decent housing of family-victims affected by disaster. Thus, defeating the purpose of the trust fund and depriving the National Government (NG) the use of these cash reserves to finance other vital programs related to housing.	a. Immediately liquidate with DSWD the trust fund amounting to P10.360 million including all interest earned so that these can be appropriated to the more important and urgent projects of the government; and b. Moving forward, intensify and strengthen mobilization efforts to ensure that Funds received are utilized accordingly.	Partially implemented Reiterated with modification under Observation No. 5, Part II of this report. Only the amount of P2.3 million has been liquidated. Fully implemented
Observation No. 5, page 67	5. A High Density Housing (HDH) project of a Community Association (CA) costing P352.304 million was not completed within the scheduled date of completion despite two approved extension periods or a total of two years, contrary to the provisions of the Building Construction and Site Development Agreement and Corporate Circular HDH No. 14-002, series of 2014, thus, depriving the intended 720 Informal	a. Require or make a representation with the CA to impose the liquidated damages against the contractor for each day of delay and initiate termination or rescission of the Agreement as a result of the contractor's fault or negligence pursuant to Article XI of the Building Construction and Site Development Agreement; b. Ensure a full coordination with the Local Government Unit (LGU), the CA and	Reconsidered The HOA expressed that they are not willing to penalize the contractor, and extended the construction of the project which will be completed in May 2022. Fully implemented

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	Settler Families(ISF)-beneficiaries of the immediate use of the decent housing, resulting in the non-attainment of the objectives of the HDH Program and the risk of non-recovery of SHFC's investment in housing projects. (Genesis Ville)	<p>Meralco for the dismantling of the post which encroaches on the project site;</p> <p>c. Moving forward, require the Department of Engineering to perform due diligence on future projects and to ensure that the assessment of the contractor/developer hired by the association is based on financial capacity, managerial capability, organizational structure, technical expertise, delivery capability and experience pursuant to Corporate Circular HDH No. 14-002 dated March 31, 2014; and</p> <p>d. Require the Department of Engineering to strictly monitor and validate the construction projects undertaken by the CA.</p>	<p>Fully implemented</p> <p>Fully implemented</p>
Observation No. 6, page 72	6. Accounts Payable – MCR amounting to P988.844 million payable to 490 CAs for the 50 per cent balance of the cost of lot, remained outstanding for a period of two years or more due to the inability of the CAs to complete the documentation required under SHFC Corporate Circular No. 024, series of 2013. This may result in the non/poor recovery of funds invested in housing and deprives SHFC the use of the fund for other housing projects intended for low income families.	<p>a. Follow up with the CAs the documentary requirements needed for the payment of the remaining 50 per cent cost of lot to the landowner;</p> <p>b. Devise control mechanisms in the review process of the documents submitted by the CAs to ensure that all the documentary requirements are complied with before the release of the 50 per cent final payment; and</p> <p>c. Include in the Schedule of AP-MCR the information on</p>	<p>Partially implemented</p> <p>The concerned SHFC Branches are coordinating with the CAs for the lacking documents.</p> <p>Fully implemented</p> <p>Partially implemented</p>

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
		the approval of the Letter of Guaranty, cost of lots and name of the landowner/seller to facilitate the validation and monitoring of the accounts.	The FCD is working on this in coordination with the Operations Department for the data needed.
Observation No. 7, page 75	7. The grant of one-time gratuity pay amounting to P955,500 to 346 DBP Service Corporation and DBPSC Security Services Incorporated employees hired by the SHFC through Institutional Contract of Service (ICOS) is not in accordance with the provisions of Administrative Order (AO) No. 20, series of 2020, and CSC, COA and DBM Joint Circular No. 1, series of 2017.	a. Seek clarification from the DBM or the Office of the President whether the personnel of institutional contract of service provider rendering services to SHFC are entitled to the gratuity pay authorized under AO No. 20;	Partially implemented Management is waiting for the response of DBM on their letter dated June 4, 2021.
		b. Otherwise, in the absence of an express authority or clarification that the gratuity pay includes those hired through ICOS, require the employees of the DBPSC and DBPSCSSI to refund the gratuity pay received from SHFC in the amount of P955,500; and	Partially implemented Management is waiting for the response of the DBM on their letter dated June 4, 2021.
		c. Adhere strictly to the provisions of the Contract Agreement entered into by SHFC and the service provider, and to the CSC, COA and DBM Joint Circular No. 1, particularly the provision on the no employer-employee relationship and that the service provider alone shall be responsible for the payment of the wages and other employment benefits of their employees.	Fully implemented
Observation No. 8, page 79	8. The grant of financial assistance totaling P1.526 million to	a. Submit legal basis on the grant of financial assistance to personnel of ICOS	Partially implemented

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	454 DBP Service Corporation and DBPSC Security Services Incorporated employees hired through Institutional Contract of Service (ICOS) has no legal basis and is not in accordance with the provisions of Section 5 of the CSC, COA and DBM Joint Circular No. 1, series of 2017, and Section 4(7) on the Fundamental principles of Presidential Decree (PD) No. 1445.	rendering services to SHFC otherwise, refund the financial assistance granted to them in the absence of legal authority; and b. Adhere strictly to the provisions of CSC, COA, DBM Joint Circular No. 1, series of 2017, and Section 4(7) of PD 1445.	Waiting for the reply from DBM on their clarification if ICOS are included. Fully Implemented
Observation No. 9, page 82	9. The grant of financial assistance totaling P1.508 million to 887 vulnerable Member Beneficiaries (MBs) during the ECQ is without legal basis and runs counter to the mandate of the SHFC as well as to the Philippine Commission for Women (PCW) Memorandum Circular (MC) No.2020-03 dated April 27, 2020, resulting in the overlapping of functions with other government agencies tasked to respond to the crisis under the Bayanihan to Heal as One Act and Bayanihan to Recover as One Act.	a. Submit legal basis for the grant of financial assistance to MBs, otherwise, the transaction is considered irregular in the absence of legal authority; b. Strictly disburse funds in accordance with the SHFC's mandate, vision and mission; and c. Disburse funds from GAD budget in accordance with the FY 2020 GAD plan and budget.	Fully implemented Fully implemented Fully implemented
Observation No. 10, page 85	10. Non-withholding of tax on the monetized leave credits in excess of the allowable number of days considered as de minimis benefit of 41 employees	a. Secure clarification from the BIR whether the monetized leave credits in excess of the threshold is exempt from tax considering that SHFC employees are covered by the Labor Code;	Reconsidered In OGCC Opinion No. 240, series of 2021, dated July 12, 2021 on the

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	per cent from its Gender and Development (GAD) budget amounting to P2.407 billion which is 36.29 per cent of its 2020 DBM approved budget of P6.633 billion. However, the GAD Plan and Budget (GPB) was not submitted to PCW within the prescribed period in accordance with PCW MC No. 2020-003, thus it could not be ascertained whether the PPAs really addressed the gender issues because it is still under review by the PCW. Moreover, of the 19 PPAs amounting to P12.684 million for the client and organization-focused activities, only 11 PPAs amounting to P6.555 million or 51.68 per cent were implemented, thus reducing the opportunity of women and other concerned parties to participate and benefit from GAD PPAs.	<p>identified are fully carried out and really addressed the gender issues of SHFC;</p> <p>b. Monitor properly the implementation of the approved GAD PPAs which should be done as scheduled within the budget year; and</p> <p>c. Adhere strictly to the provisions of PCW MC No. 2020-03 on the adjustments and implementation of the PPAs.</p>	<p>Partially implemented</p> <p>Reiterated under Observation No. 11, Part II of this report.</p> <p>Fully implemented</p>
Observation No. 13, page 95	13. Absence of prior approval or consent, through submission of signed consent/agreement form, from the 215 Member Beneficiaries (MBs) who reached the age of 70 years old during the three-month loan term extension period with an outstanding loan balance aggregating P32.694 million as at June 16, 2020 is contrary to Section V of SHFC	<p>a. Secure copies of Certification/Consent Form for the extension of the loan term from HOAs and or MBs and furnish the Audit Team of their certified true copies; and</p> <p>b. Conduct an online briefing or orientation to MBs who reached the age of 70 years during the moratorium period through the assistance of the CAs emphasizing the financial impact and implication of non-coverage of MRI.</p>	<p>Fully implemented</p> <p>Fully implemented</p>

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
Observation No. 14, page 97	Corporate Circular No. 054, s. 2020, thus, SHFC is exposed to risk of non-recovery of its investment in housing in case of MBs death or total permanent disability during the loan term extension.		
	14. Total amortization payments amounting to P610,351 collected from 2,891 out of 4,369 sampled past due accounts from March 16, 2020 to June 15, 2020 were not posted immediately and not applied to the arrearages as at March 15, 2020, contrary to Section VII of SHFC Corporate Circular No. 054, s. 2020, resulting in the computation and charging of interest and penalty charges.	a. Investigate and reconcile the noted non-application of payment from MBs to their arrearages totaling P0.610 million;	Fully implemented
		b. Apply the amortization payments collected from the borrowers to the arrearages before the effectivity of the moratorium in compliance with Section VII of SHFC Corporate Circular No. 054, s. 2020, and adjust the penalties charged to the borrowers, if warranted; and	Fully implemented
		c. Ensure the timely posting of payments of borrowers' amortizations to avoid unnecessary imposition of penalty and interest charges.	Fully implemented

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Observation No. 3, page 59	15. 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	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:	Both are partially implemented
		i. 65 percent of the variance by CY 2020 ii. 35 percent of the variance by CY 2021; and	As of February 2022, the variance of P1.077 billion was reduced to P372.215 million or 65.5 per cent reconciled. Reconciliation is ongoing.

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	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.		
Observation No. 6, page 67	16. 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.	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.	Fully implemented Fully implemented Fully implemented
Observation No. 7, page 69	17. 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	a. 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;	Reconsidered The matter is already under the jurisdiction of the Task Force headed by the Department of Human Settlement and Urban Development

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	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.		(DHSUD). The Taskforce had already revalidated 394 MBs listed in the DILG certified list while the others need to submit requirements to establish their identity and place of origin before the approval
		<p>b. Require the CA to implement the following remedies against the Contractor as provided in the Agreement:</p> <ul style="list-style-type: none"> • 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. 	<p>Reconsidered</p> <p>The matter is already under the jurisdiction of the Task Force headed by the DHSUD.</p>
Observation No. 8, page 76	18. The Alyansa ng Mamamayan sa Valenzuela Multi-Purpose Cooperative (AMVA-MPC) Project	Require the CA to submit to SHFC the required documents for substitution of the actual occupants to avoid eviction and unauthorized	<p>Reconsidered</p> <p>The resolution of the issues related to the</p>

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	<p>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. (AMVA)</p>	<p>substitution of the original MBs; and</p>	<p>project is already being handled by the Inter-agency Management Council (IAMC) composed of SHFC, LGU and CDA. In this regard, all actions are dependent on the decision of the council with the following updates</p> <ul style="list-style-type: none"> a. CDA facilitated and conducted an election of new officers of the AMVA; b. Substitution will be in strict compliance with the substitution policy; c. Revalidation and verification of double availment; and d. Substitutes should be MBs living from waterways/ danger areas.
<p>Observation No. 9, page 84</p>	<p>19. 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</p>	<p>Strictly comply with the provision of RA No. 9184 to conduct public bidding for the provisions of the group MRI to loan borrowers.</p>	<p>Fully implemented</p>

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	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.		
Observation No. 10, page 87	20. 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.	a. Secure a post-facto approval from the OP, through the GCG, of SHFC's Car Plan to its officers;	Partially implemented Management is waiting for the approval from the Office of the President.
		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	Partially implemented The three BOD members continue to pay their monthly payments.
		c. Suspend the granting of car loans until approval from the OP is secured.	Fully implemented

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
Observation No.12, page 94	21. 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.	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	Reconsidered OGCC Opinion dated July 2, 2021 stating that the reckoning period for the determination of the retirement benefits is on the date of actual retirement. Partially implemented This will be addressed when the report of the Actuary Services is approved by Management.
Observation No. 17, page 114	22. 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.	a. Fast-track the transfer of the TCTs of the foreclosed and dacioned properties in the name of SHFC; and b. Dispose the properties already in the name of SHFC through public bidding.	Partially implemented The projects are still in the process of consolidation. Partially implemented The status of the transfer of TCTs in the name of SHFC are as follows: <ul style="list-style-type: none"> • Olympia Village – already received by RD and ongoing review prior to the issuance of new TCT in the

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
			name of SHFC.
			<ul style="list-style-type: none"> • Villa Rita Subdivision - the deficiencies on documentation were already submitted to the Assessor's Office of Bayombong, Nueva Viscaya for correction and review prior to the issuance of Certificate Authorizing Registration (CAR). • Cristina Homes 2 – already paid the CGT/DST and awaiting for the issuance of CAR. • Juel Country Homes - for computation of CGT/DST by the BIR. • Plainville Homes – for re-computation of CGT/DST by the BIR. • UPLB-ONAPUP Village - updated payment of RPT and Requested Certified True Copy of three (3) remaining titles.

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
			<ul style="list-style-type: none"> • Catbalogan City Homes - updated payment of RPT. • Malinoville Subdivision – For approval of the RD of Pampanga the application for abatement in the amount of P9.1 million. • Villa Felipe Heights - awaiting for the approval of the RD of Nueva Ecija for the application of abatement. The final computation of total taxes payable is subject to the approval of the application for abatement • Cristina Homes - already in SHFC's name and for appraisal of the property prior to disposal. • Evergreen Subdivision - the TCT was already transferred in the name of SHFC, however the property cannot be disposed due to the pending

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
			expropriation case involving some lots in the subdivision affected by the Subic-Clark-Tarlac Expressway (SCTEX).

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Observation No. 8, page 76	23. 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 Reiterated with modification under Observation No. 9, Part II, of this report. This observation was first raised in the AAR for CY 2018.
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CY 2017 AAR

Observation No. 3, page 48	24. 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.	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 As of December 31, 2021 the amount of P58.723 million or 67 per cent had been reconciled. The balance is ongoing reconciliation.
Observation No. 6, Page 54	25. A High-Density Housing (HDH) project amounting to P414.049 million was approved by	If the result of the soil testing of the subject property is favorable, demand the contractor to complete the	Partially implemented The concerned

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	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. (MWACH)	project.	branch sought the assistance of the DENR regarding the illegal dumping activities in the project site and also conducted a meeting with the Local Government Unit (LGU) Solid Waste Management requesting for assistance on the monitoring and mitigating the illegal dumping activities in the project area.

2016 AAR

Observation No. 4, Page 34	26. 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	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 Two out of the seven TCTs for the projects had been transferred in the name of SHFC.
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Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	2014-003, thus, may result to non-recovery/loss of fund in case of a third party claimant.		

B. Abot-Kaya Pabahay Fund

CY 2018 AAR

Observation No. 16, Page 9	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 The FCD is awaiting for the approval of the drafted Manual on Accounting policy by the Board of Trustees.
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CY 2016 AAR

Observation No. 7, page 43	28. 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,	a. Determine the persons liable for the deficiencies noted and file appropriate administrative action for failure to perform their functions.	Partially implemented The AKPF projects were approved and released by NHMFC and transferred to SHFC by virtue of E.O. 272. For the Rivera Heights Subdivision, the AKPF was tasked by the TWG to secure a copy of the new TCT already in the name of
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Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	<p>posting the risk that the TCT/s and Corporation loan exposure may not be recovered.</p> <p>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, 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.</p> <p>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.</p> <p>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</p>		<p>Province of Bataan and to verify back titles for the annotation. The certified copy of the TCT and back titles are still for scanning</p> <p>As for the lost collateral TCT of the Villa Alejandria, Management is still waiting for the update from the investigating unit of the LRA.</p>

Reference	Audit		Status/Actions Taken
	Observations	Recommendations	
	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.		

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
December 31, 2021 and 2020
(In Philippine Peso)

	Note	2021	2020
ASSETS			
Current assets			
Cash and cash equivalents	4	291,236,938	315,220,410
Receivables	5	2,508,360	2,690,442
		293,745,298	317,910,852
Non-current assets			
Receivables, net	5	67,441,124	67,441,124
Property and equipment	6	105,085	129,261
Investment property	7	197,635,751	196,142,840
		265,181,960	263,713,225
TOTAL ASSETS		558,927,258	581,624,077
LIABILITIES AND FUND BALANCE			
Liabilities			
Inter-agency payables	8	10,114,466	29,477,085
Other current liabilities	9	518,395	442,538
TOTAL LIABILITIES		10,632,861	29,919,623
Fund balance	10	548,294,397	551,704,454
TOTAL LIABILITIES AND FUND BALANCE		558,927,258	581,624,077

The Notes on pages 129 to 143 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, 2021 and 2020
(In Philippine Peso)

	Note	2021	2020
INCOME			
Service and business income	11	4,552,733	7,712,416
		4,552,733	7,712,416
EXPENSES			
Personnel services	12	3,586,845	4,545,310
Maintenance and other operating expenses	13	4,232,195	3,866,339
Financial expenses	14	60,456	147,835
Non-cash expenses	15	24,176	24,176
		7,903,673	8,583,660
LOSS BEFORE OTHER INCOME			
		(3,350,940)	(871,244)
Other non-operating income	16	18,502	15,593
		(3,332,438)	(855,651)
NET LOSS			
		(3,332,438)	(855,651)

The Notes on pages 129 to 143 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, 2021 and 2020
(In Philippine Peso)

Balance as at January 1, 2021		551,704,454
Prior Year's Adjustment		(77,619)
		<u>551,626,835</u>
Net loss		(3,332,438)
Balance at December 31, 2021	10	<u>548,294,397</u>
Balance as at January 1, 2020		552,560,105
Net loss		(855,651)
Balance at December 31, 2020	10	<u>551,704,454</u>

The Notes on pages 129 to 143 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, 2021 and 2020
(In Philippine Peso)

	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection of receivables		3,959,247	9,334,632
Interest income received		716,450	473,412
Refund of cash advance		0	115,339
Other receipts		510	0
Payment of realty tax		(4,193,169)	(8,244,364)
Payment of cash advance		0	(245,400)
Payment of operating expenses		(24,466,510)	(1,851,229)
Net cash used in operating activities		(23,983,472)	(417,610)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(23,983,472)	(417,610)
Cash and cash equivalents at beginning of the year		315,220,410	315,638,020
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	291,236,938	315,220,410

The Notes on pages 129 to 143 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

(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 Components (ASDFC) 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 SHFC's 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 (to follow the NTFS SHFC as a whole)

a. Effective in 2021 that are relevant to the AKPF:

(i) Amendment to PFRS 16, COVID-19-related Rent Concessions beyond 30 June 2021

The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

(ii) Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, Interest Rate Benchmark Reform - Phase 2

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Fund is required to disclose information about:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

b. New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2021

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, AKPF does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. AKPF intends to adopt the following pronouncements when they become effective.

(i) Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*
- Annual Improvements to PFRSs 2018-2020 Cycle
 - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
 - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
 - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

(ii) Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

(iii) Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

(iv) Effective beginning on or after January 1, 2025

- PFRS 17, *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 address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in the PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does

not constitute a business however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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 Statement of 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 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 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 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, AKPF's investment property only represents land which is valued at cost with no accumulated depreciation.

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

2.6 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 AKPF 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.

2.7 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 profit or loss 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.

2.9 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.

2.9 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, 2021 and 2020, 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:

	2021	2020
Cash in bank	16,931,938	20,297,041
Investment in treasury bills – local	274,305,000	294,923,369
	291,236,938	315,220,410

4.1 Cash in bank

This account consists of current savings account with government banks that earns interest at prevailing interest rates 0.05 per cent per annum.

4.2 Investment in treasury bills – local

This account 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:

	2021	2020
Current:		
Interest receivable	2,508,360	2,212,690
Sales contract receivable – current	0	477,752
	2,508,360	2,690,442
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

5.1 Interest Receivable

This account consists of accrued interest from Investment in LBP-HYSA and DBP-SSD. The investment in LBP HYSA and DBP-SSD earns interest at the prevailing rates of 0.50 to 1.915 and 0.73 per cent to 1.9 per cent, respectively.

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 LGU-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 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.

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 Alejandra Subdivision

This was endorsed to Legal Department due to missing owner's copy of title no. T-274150 as mortgaged collateral with a total area of 120,000 sqm, 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 but was found spurious.

On November 20, 2019, SHFC wrote to LRA requesting for investigation of lost collateral title. This letter was already forwarded to the investigating unit of the LRA on December 16, 2019.

Per follow up on the case on February 7, 2020, according to them, they will give us updates on their findings on the case. Still waiting for their reply. Series of follow up through phone calls were made.

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 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 to RTC 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.

On May 17, 2021, the RTC issued a Resolution denying the Petitioner's Motion for Reconsideration.

6. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property and equipment at the beginning and end of 2021 and 2020 are shown below:

	Office Equipment	Information and Communication Technology	Furniture and Fixtures	Leased Assets Improvement, Building	Total
Cost					
January 1, 2021	461,376	34,815	99,235	193,243	788,669
Additions/Deductions	0	0	0	0	0
December 31, 2021	461,376	34,815	99,235	193,243	788,669
Accumulated Depreciation					
January 01, 2021	(454,248)	(31,333)	(75,272)	(98,555)	(659,408)
Depreciation	(3,544)	0	(3,240)	(17,392)	(24,176)
December 31, 2021	(457,792)	(31,333)	(78,512)	(115,947)	(683,584)
Net Book Value					
December 31, 2021	3,584	3,482	20,723	77,296	105,085
Cost					
January 1, 2020	461,376	34,815	99,235	193,243	788,669
Additions/Deductions	0	0	0	0	0

	Office Equipment	Information and Communication Technology	Furniture and Fixtures	Leased Assets Improvement, Building	Total
December 31, 2020	461,376	34,815	99,235	193,243	788,669
Accumulated Depreciation					
January 01, 2020	(450,704)	(31,333)	(72,032)	(81,163)	(635,232)
Depreciation	(3,544)	0	(3,240)	(17,392)	(24,176)
December 31, 2020	(454,248)	(31,333)	(75,272)	(98,555)	(659,408)
Net Book Value					
December 31, 2020	7,128	3,482	23,963	94,688	129,261

7. INVESTMENT PROPERTY

This account pertains to the costs of eight (8) foreclosed properties and five (5) projects acquired from the settlement of accounts through Dacion en Pago totaling **P197,635,751** and P196,142,840 as of **December 31, 2021** and 2020, respectively. These assets were previously reclassified from Acquired Assets to Foreclosed Properties/Assets in compliance with the Revised Chart of Accounts (RCA) and were later reclassified to Investment Property.

The increase of P1,492,911 pertains to the payment of additional CGT/DST for the project, Cristina Homes 2, for the transfer of titles to the SHFC's name.

8. INTER-AGENCY PAYABLES/INTRA-AGENCY PAYABLES

This account consists of:

	2021	2020
Due to other funds	3,775,139	23,255,262
Due to LGUs	6,339,327	6,221,823
	10,114,466	29,477,085

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 AKPF Projects.

9. OTHER CURRENT LIABILITIES

This account consists of other payables representing taxes withheld from interest income on Investment in Treasury Bills – Local with Land Bank of the Philippines amounting to **P518,395** and P442,538 as of **December 31, 2021** and 2020, respectively.

10. FUND BALANCE

Prior period adjustments in January 1, 2021 balance include the amount of P77,619 pertaining to Interest Income - Sales Contract Receivable due to the adjustment of the ledger of the project Villa Aguila disposed through Negotiated Sale.

11. SERVICE AND BUSINESS INCOME

	2021	2020
Interest income – investments	4,537,510	7,697,605
Interest income – sales contract receivable	4,344	10,309
Fines and penalties – business income	10,879	4,502
	4,552,733	7,712,416

12. PERSONNEL SERVICES

This account consists of:

	2021	2020
Salaries and wages – regular	1,862,520	1,858,046
Other compensation		
Year-end bonus	155,210	155,210
Personnel economic relief allowance	72,000	72,000
Transportation allowance	67,307	60,426
Representation allowance	60,000	55,000
Clothing/uniform allowance	18,000	18,000
Cash gift	15,000	15,000
Honoraria	0	1,500
Other bonuses and allowances	885,955	811,065
	3,135,992	3,046,247
Personnel benefit contributions		
Provident/welfare fund contributions	279,378	279,378
Retirement and life insurance premiums	74,925	57,600
PhilHealth contributions	25,781	25,449
Pag-IBIG contributions	3,600	3,900
Employees compensation insurance premiums	1,080	1,080
	384,764	367,407

(Forward)

	2021	2020
Other personnel benefits		
Retirement gratuity	0	664,953
Terminal leave benefits	57,089	457,703
Birthday gift	9,000	9,000
	66,089	1,131,656
	3,586,845	4,545,310

13. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

	2021	2020
Taxes, insurance premiums and other fees		
Taxes, duties and licenses	2,882,547	2,774,222
Insurance expense	0	90,882
Fidelity bond premiums	0	3,000
	2,882,547	2,868,104
General services		
Other general services	786,492	392,380
Security services	96,026	96,026
Janitorial services	16,430	16,430
	898,948	504,836
Traveling expense		
Traveling expenses – local	38,586	74,978
	38,586	74,978
Utility expenses		
Electricity expenses	81,116	63,372
Water expenses	8,516	7,904
	89,632	71,276
Supplies and materials expenses		
Office supplies expenses	52,988	7,573
Fuel, oil and lubricants expenses	0	9,999
Other supplies and materials expenses	0	218
	52,988	17,790
Communication expenses		
Telephone expenses	32,569	30,315
	32,569	30,315
Other maintenance and operating expenses		
Rent/lease expenses	233,325	233,325
Documentary stamps expenses	1,480	19,860
Printing and publication expenses	0	3,791
Other maintenance and operating expenses	2,120	42,064
	236,925	299,040
	4,232,195	3,866,339

14. FINANCIAL EXPENSES

This account consists of:

	2021	2020
Management Supervision/Trusteeship Fees	59,456	147,385
Bank charges	1,000	450
	60,456	147,835

15. NON-CASH EXPENSES

This account consists of:

	2021	2020
Depreciation		
Depreciation – leased assets improvements	17,392	17,392
Depreciation – machinery and equipment	3,544	3,544
Depreciation – furniture, fixtures and books	3,240	3,240
	24,176	24,176

16. OTHER NON – OPERATING INCOME

This account consists of interest income from bank deposits amounting to **P18,502** and P15,593 for the year **2021** and 2020, respectively.

17. COMPLIANCE WITH TAX LAWS

Supplementary Information Required Under Revenue Regulations 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 Revenue Regulation No. 15- 2010, hereunder are the information on taxes, licenses and fees paid or accrued during the taxable year.

	2021	2020
Taxes and licenses		
Final tax paid on income	1,971,344	1,550,782
Real property tax	911,203	1,223,440
	2,882,547	2,774,222