

## EXECUTIVE SUMMARY

### INTRODUCTION

The Home Development Mutual Fund (HDMF or Pag-IBIG Fund) was created on June 11, 1978 by virtue of Presidential Decree (PD) No. 1530 primarily to generate savings through membership in an integrated nationwide savings and to help the Filipino family in achieving its dream of “a home for every Filipino family.” With the issuance of PD No. 538 on June 4, 1979, the funds for private and government workers, which were previously administered by the Social Security System (SSS) and the Government Service Insurance System (GSIS) were merged into what is now known as Pag-IBIG Fund, which stands for Pagtutulungan sa Kinabukasan: Ikaw, Bangko, Industriya at Gobyerno.

Executive Order (EO) No. 35 issued on July 30, 1986 marked the return, effective August 1, 1986, of the mandatory membership to the Fund that was temporarily suspended by the former President. With the passage of EO No. 90 on January 1, 1987, membership with the Fund became voluntary. However, Republic Act (RA) No. 7742 issued on June 17, 1994 reverted back the mandatory membership to the Fund for all SSS and GSIS members effective January 1, 1995.

On July 21, 2009, RA No. 9679, otherwise known as the HDMF Law of 2009, was approved for the furtherance and strengthening of the HDMF goals and objectives. Section 2 of the Act expressly states that the Fund is created as a mutual provident savings system suitable to the needs of the employed and other earning groups and to motivate them to better plan and provide for their housing needs.

The corporate powers of the Fund are vested in its Board of Trustees with 11 members as of December 31, 2017. The policies of the Board are implemented into action by the senior management team headed by the Chief Executive Officer with the assistance of two Deputy Chief Executive Officers, one Deputy Chief Executive Officer Officer-In-Charge, four Senior Vice Presidents, two Senior Vice President Officer-in-Charge, 19 Vice Presidents and five Vice Presidents Officer-in-Charge.

As of December 31, 2017, HDMF has a total of 8,109 employees consisting of the following:

Location	Regular	Agency-Hired Contractor	Direct Hired Contractuals (Overseas)	Consultants	Job Order	Total
Corporate Headquarters	562	183	-	14	288	1,047
Member Services Operations Sector	766	731	24	-	494	2,015
Home Lending Operations Sector	565	398	-	-	250	1,213
Regional Operations	1,697	1,328	-	-	809	3,834
	<b>3,590</b>	<b>2,640</b>	<b>24</b>	<b>14</b>	<b>1,841</b>	<b>8,109</b>

At present, the Fund has 11 Housing Hubs/Housing Business Centers including National Capital Region (NCR), 17 Technical and Administrative Support, 29 Member Services Offices, 95 Member Services Branches and 23 Overseas Posts. The creation of housing hubs and housing business centers in strategic locations in the country was approved by the

Board of Trustees on January 27, 2013. The Fund has 18 complete set of books including the head office and 17 branches in the different locations in Luzon (including NCR), Visayas and Mindanao.

The Fund operated on a total corporate budget of P31.728 billion for 2017. The Fund's budget utilization is shown below:

	<b>Corporate Operating Budget</b>	<b>Amount of Disbursement (In Million)</b>	<b>Savings (Variance)</b>
Personal services	4,918.557	4,361.663	556.894
Maintenance and other operating expense	7,768.024	6,115.061	1,652.963
Capital outlay	2,299.130	385.806	1,913.324
Statutory*	16,741.857	27,293.615	(10,551.758)
<b>Total</b>	<b>31,727.568</b>	<b>38,156.145</b>	<b>(6,428.577)</b>

\*Dividends declared which are credited proportionately to the Members' Total Accumulated Value.

## FINANCIAL HIGHLIGHTS (In Million Pesos)

### I. Comparative Financial Position

<b>Particulars</b>	<b>2017</b>	<b>2016</b>	<b>Increase/ (Decrease)</b>
Assets	488,744.520	439,301.628	49,442.892
Liabilities	57,211.527	55,319.331	1,892.196
Net worth			
Members' equity	361,436.073	317,744.306	43,691.767
Donated surplus	-	0.251	(0.251)
Other comprehensive income (loss)	(5,333.274)	(1,298.543)	(4,034.731)
Retained earnings	75,430.195	67,536.283	7,893.912
Total net worth	431,532.994	383,982.297	47,550.697

### II. Comparative Results of Operations

<b>Particulars</b>	<b>2017</b>	<b>2016</b>	<b>Increase/ (Decrease)</b>
Income**	54,019.515	49,654.606	4,364.909
Expenses			
Lending cost	18,328.932	19,848.018	(1,519.086)
Fund administration cost	5,304.268	4,662.909	641.359
Other expenses	118.202	134.934	(16.732)
Total expenses	23,751.402	24,645.861	(894.459)
Net income	30,268.113	25,008.745	5,259.368
Other comprehensive income (loss)	(4,034.731)	(1,818.487)	(2,216.244)
Total comprehensive income	26,233.382	23,190.258	3,043.124

\*\* Figures are presented in gross amounts in compliance with COA Circular 2017-004 (guidelines on the preparation of financial statements and other financial reports).

## **SCOPE OF AUDIT**

Our audits covered significant accounts and operations of the HDMF for CY 2017 and 2016 and were conducted in accordance with International Standards of Supreme Audit Institutions. Our audits were aimed to: (a) ascertain the accuracy of financial records and reports, and the fairness of the presentation of the financial statements in accordance with Philippine Financial Reporting Standards (PFRS); and (b) assess the propriety of the financial transactions and compliance of HDMF with government laws, rules and regulations.

We have also conducted cash examination of accountable officers to: (a) establish the actual existence of cash in the custody of the accountable officer as well as the validity of the cash items presented; (b) determine whether all monies received have been correctly recorded and fully accounted for in accordance with laws, rules and regulations; (c) prove accuracy of the cash balances appearing in the related records; and (d) determine if accountable forms are duly accounted for. Separate reports will be issued on the results of the cash examinations which covered CYs 2016 and 2017 as well as the audit of collections.

## **AUDITOR'S OPINION**

We rendered an unqualified opinion on the fairness of presentation of the financial statements of the HDMF for the years ended December 31, 2017 and 2016 in accordance with PFRS.

Some of the audit observations impact on the balances of the accounts presented in the financial statements. However, in aggregate, they do not exceed the materiality level set for the 2017 audit of accounts and transactions to warrant a qualified or adverse opinion. These observations include net overstatement of the total assets by P1.089 billion due to the following unadjusted accounts: (a) Undistributed (unposted) collections (UC) and overstatement of Cash in Bank; (b) Lapsed reservations; (c) Reversal of accrual; (d) Misclassification of semi expendable Properties and Equipments (PE); (e) Negative balances and (f) Experience refund. Consequently, the total liabilities and net worth were overstated by the same amount.

For the above observations we recommended that Management:

### *1. For undistributed (unposted) collections*

- a. Immediately reclassify Posting Clearing Account (PCA) of more than three days to appropriate contra account in accordance to AMO No. 2015-008;
- b. Credit the contributions to the MIL or refund excess payments to members;
- c. Enhance the member information system for easy validation of member ID;
- d. Prepare a work breakdown structure (WBS) for the reconciliation of GL and SL balances of the PCA-MC and UC-Others accounts by the end of 2018;
- e. Continue coordinating with collecting partners to:

- submit remittance reports on time;
- refrain from accepting payments without the required Payment Authorization Slip and correct Remittance List; and

f. Formulate a policy on the allocation of UC for housing loan collections.

2. *For lapsed reservations*

a. Reclassify the 557 NCAHS accounts with long lapsed reservations to Investment Property account, in compliance with Paragraphs 6 to 9 and 15 of PFRS 5 and AMO No. 2014-005; and

b. Strictly implement all provisions of HDMF Circular No. 383 and other issuances regarding validity of the prescriptive period of reservations to keep ROPA accounts always available for disposal.

3. *For reversal of accrual*

a. Submit the reports and documents to support the journal tickets for the reversal of entries for Advertising and Publication Expenses and Business Promotions expense that did not materialize; and

b. Adjust correspondingly the reversal of expenses to the RE and reflect transactions prior to CY 2016 in the beginning balance of the RE in the Statement of Changes in Equity as of December 31, 2016 in accordance with Paragraphs 41 to 43 of PAS 8.

4. *For misclassification of semi expendable properties and equipments (PE)*

a. Expedite the identification of semi-expendable properties and prepare the necessary adjusting journal entries to reclassify the account from PE;

b. Issue an ICS to end-users to establish accountability over the semi-expendable property; and

c. Maintain a uniform, itemized and systematic semi-expendable inventory reports and schedule of ICS.

5. *For negative balance*

a. Submit WBS to fully complete the migration of SLs to the PFMS and STLMS;

b. Reconcile the discrepancy and prepare the necessary adjusting entries to fairly present the accounts in the financial statements; and

c. Furnish documents to support the journal tickets pertaining to negative balances of MC accounts.

6. *For experience refund*

- a. Collect from the insurance provider the annual ER totalling P49.083 million for CYs 2016 and 2017 to comply with the provisions of the Brokerage Agreement (BA);
- b. Allocate the individual borrower's shares and refund the excess payment, if any, in accordance with the AMO No. 2017-006;
- c. Accordingly adjust AR and AP accounts to comply with Paragraphs 13 and 86 of PAS 37 and Conceptual Framework for Financial Reporting 2010;
- d. Revisit and amend the BA to prescribe the fixed rate of the ER based on the gross premium for simplicity of the computation; and
- e. Compute the ER based on actual payments of claims (cash basis) to facilitate computation and reconciliation with the insurance provider.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 180 audit recommendations embodied in the prior years' Annual Audit Report, 76 were implemented, 93 were partially implemented and 11 were not implemented. Details are presented in Part III of this Report.