

## EXECUTIVE SUMMARY

### INTRODUCTION

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

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

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

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

The President is assisted in the management of SHFC by the Executive Vice-President, two Vice-Presidents, three Officer-in-Charge (OIC) Senior Vice-Presidents, 19 OIC Vice-President, three Department Managers and 42 OIC Department Managers. The personnel complement for calendar year 2020 is 614, with 225 regular, one probationary and 388 agency-hired employees. To date, the SHFC has 24 Satellite/Regional Offices located in Bacoor Cavite, Isabela, Naga City, Puerto Princesa City in Palawan, Bacolod City, Iloilo City, Cebu City, Davao City, General Santos City, Cagayan de Oro City, Zamboanga City, Roxas City, Calamba City, Tubigon Bohol, Pampanga, Lucena, San Carlos Negros Occidental, Daet, Albay, Tagum, Dapitan, Iligan, Butuan and Caraga.

The DBM-approved Corporate Operating Budget (COB) of the SHFC for CYs 2020 and 2019 amounted to P6.634 billion and P3.303 billion, respectively, which were utilized as follows:

Particulars	2020		2019	
	Budget	Utilization*	Budget	Utilization*
		(In Thousand Pesos)		
Personnel services	333,049	276,281	307,678	288,103
Maintenance and other operating expenses	972,411	316,760	401,331	373,058
Capital outlay	62,527	52,914	84,308	52,809
Loan outlay	2,394,745	2,045,006	2,509,340	2,560,302
North-South Luzon Railway Project	2,607,128	70,170	0	0
Marawi Recovery, Rehabilitation and Reconstruction Program	134,464	55,490	0	0
AKPF	129,571	14,864	0	0
	<b>6,633,895</b>	<b>2,831,485</b>	<b>3,302,657</b>	<b>3,274,272</b>

\*The amounts of utilization presented are on 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	2020	2019	Increase (Decrease)
Assets	28,348,431,601	28,197,893,054	150,538,547
Liabilities	21,585,061,967	21,738,246,540	(153,184,573)
Equity	6,763,369,634	6,459,646,514	303,723,120

### II. Comparative Results of Operations

Particulars	2020	2019	Increase (Decrease)
Total income	483,329,833	846,008,932	(362,679,099)
Total expenses	614,250,871	621,804,910	(7,554,039)
Profit before tax	(197,591,180)	39,053,717	(236,644,897)
Income tax expense	(54,703,975)	22,711,857	(77,415,832)
Profit after tax	(76,217,063)	201,492,165	(277,709,228)
Subsidy from National Government	427,766,158	727,506,829	(299,740,671)
Comprehensive income	351,549,095	928,998,994	(577,449,899)

## OPERATIONAL HIGHLIGHTS

Performance Indicators	2020		
	Targets	Accomplishments	Wt.
<b>Social Impact</b>			
Increase number of ISFs provided with Housing Financial Assistance.	35,000	20,617	35%
<ul style="list-style-type: none"> <li>20,617 ISFs for the 63 community associations, with total amount released of P1.609 billion</li> </ul>			
<b>Stakeholders</b>			
Percentage of Satisfied Customers (Pre-Takeout and Post-Takeout)	90%	SHFC consistently achieve satisfactory ratings for its pre-takeout and post-takeout activities on a commissioned Client Satisfaction Survey.	5%
<ul style="list-style-type: none"> <li>Number of Stakeholders who give a rating of at least Satisfactory - 90%</li> </ul>			
<b>Financial</b>			
Improve Collection Efficiency Rate	73%	97.07%	10%
<ul style="list-style-type: none"> <li>Collection Efficiency Rating - 73%</li> </ul>			
Increase Net Operating Income (Before Tax and Subsidy)	P165 million	P44.007 million	10%
<ul style="list-style-type: none"> <li>P165 million Net Operation Income</li> </ul>			
Improve Budget Utilization Rate	Utilize not less than 90% but not more than 100% of the GAA Allocation for SHFC Programs	90%	10%
<ul style="list-style-type: none"> <li>SHFC's community-driven programs, CMP and HDH, were allocated with P500 million and P896.92 million respectively.</li> </ul>			
<b>Internal Process</b>			
Percentage of Loan Applications Processed within prescribed period	100% loan application processed within prescribed period	100%	10%
<ul style="list-style-type: none"> <li>100% loan applications processed prescribed period</li> </ul>			

Performance Indicators	2020		
	Targets	Accomplishments	Wt.
<p><i>Improve Support Systems for Effective and Efficient Processes</i></p> <ul style="list-style-type: none"> <li>• 100% attainment of the 2020 deliverables based on SHFC's DICT-Approved ISSP 2018-2020</li> </ul>	Continuously developed the automation of system processes to cover information for operational and management activities and further promote ease of doing business.	SHFC implementing four out of the seven systems identified under the Phase III and its DICT-Approved Information Systems Strategies Plan (ISSP) from 2018-2020	5%
<b>Learning and Growth</b>			
<p><i>Attain Quality Management Certification</i></p> <ul style="list-style-type: none"> <li>• Pass ISO Surveillance Audit for the Head Office and ISO 9001:2015 Certification for one Regional Branch</li> </ul>	SHFC ensure that the ISO 9001:2015 certification is maintained during its Surveillance audit at the Head Office. (all or nothing)	SHFC ISO 9001:2015 Re Certification from SOCOTEC Certification Philippines Inc for ISO 9001 on December 19,2019	5%
<p><i>Improvement of the Competency of the Organization</i></p> <ul style="list-style-type: none"> <li>• Improvement in the Competency Baseline of the Organization</li> </ul>	SHFC strives for the continual development of its human resource management by continuously implementing the Competency Based System. (all or nothing)	SHFC Completed 208 webinars and online trainings	5%

## SCOPE OF AUDIT

Our audits covered the examination, on a test basis, of the accounts and financial transactions of the SHFC and the AKPF–Amortization Support and Developmental Financing Program for the years ended December 31, 2020 and 2019 and were conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI). Our audit was aimed to determine the fairness of presentation of the financial statements in accordance with Philippine Financial Reporting Standards and to assess the propriety of the financial transactions and compliance of SHFC with government laws, rules and regulations.

## INDEPENDENT AUDITOR'S OPINION

We rendered an adverse opinion on the fairness of the presentation of the financial statements of the SHFC for the years ended December 31, 2020 and 2019 due to the Undistributed Collections (UC) under Other Payables account pertaining to payments of member-borrowers which remained un-posted to the Mortgage Contracts Receivable (MCR) under Receivables account. This overstated both the Other Payables and Receivables accounts by P452.252 million and P394.076 million as at December 31, 2020 and 2019, respectively.

Moreover, the account balances of the Investments in Treasury Bills of P940.233 million in 2020 and P1.604 billion in 2019; Receivables, current of P121.785 million in 2020 and P106.459 million in 2019; Other Current Assets of P701.326 million in 2020 and P518.260 million in 2019; Receivables, non-current of P18.864 billion in 2020 and P18.331 billion in 2019; and Other Non-Current Assets of P551.704 million in 2020 and P552.560 million in 2019 or a total of P21.179 billion and P21.112 billion as at December 31, 2020 and 2019, 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 of December 31, 2020 and 2019.

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

*For undistributed collections*

- a. Submit work breakdown schedule to post and allocate UC by at least:
  - i. 50 per cent by end of CY 2021
  - ii. 50 per cent by end of CY 2022; and
- b. Require the Information and Communication Technology Department to facilitate the enhancement of the database to include the HDH Projects and all other accounts not yet in the database.

*For noncompliance with the requirements of PFRS 9 on Financial Instruments*

Formulate an accounting policy on financial instruments which is aligned/compliant with the requirements of PFRS 9 and accordingly apply this policy in the classification, measurement and impairment of the financial instruments of SHFC.

*For noncompliance with PAS 19 on Employee Benefits*

- a. Recognize in the books the present value of expected payments to cover future retirement benefits as expense and liability, pursuant to PAS 19;
- b. Disclose in the Notes to Financial Statements pertinent and necessary information required under paragraph 135 of PAS 19 on Employee benefits; and
- c. Seek assistance from a qualified actuary 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.

**OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

1. 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.

We recommended that Management:

- 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.
2. 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 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.

We recommended that Management:

- 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 Meralco for the dismantling of the post which encroaches on the project site;
  - 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
  - d. Require the Department of Engineering to strictly monitor and validate the construction projects undertaken by the CA.
3. 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 totaling P1.918 million is contrary to Section 1 of Revenue Regulation (RR) No. 5-2011 and Section 7 of RR No. 11-2018 and may expose SHFC to the risk of possible assessment on deficiency tax on wages.

We recommended that Management:

- 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; and

- b. Ensure that the provisions of RR No. 5-2011 and RR No. 11-2018 are strictly applied to all other allowances and benefits granted to employees in order to avoid possible assessment by the BIR on deficiency tax on wages.

### **SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES, AND CHARGES**

The balance of disallowances amounting to P76,629,312 consists of the balances of (a) ND No. 2019-01(2018) amounting to P5,482,500, (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 P116,333 as of December 31, 2020. There were no Notices of Suspension and Charge issued during the year.

### **STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

Out of 57 audit recommendations for both SHFC and AKPF embodied in the CY 2019 Annual Audit Report, 25 were fully implemented, 28 were partially implemented of which six were reiterated in Part II of this Report, and four were reconsidered. The details are presented in Part III of the Report.