



PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

January 24, 2018 PSMBFI Board Room

Attendees:

DIR KEITH ERNALD L SINGIAN
DIR RICARDO C MARQUEZ
DIR LYNDON G CUBOS
DIR JOHN Q SOSITO

DIR LYNETTE M TADEO
PDIR NAPOLEON C TAAS
ATTY MATTHEW P BACCAY

Absent :

DIR JUANITO B VAÑO JR

Resource Persons / Guests:

DIR ARMANDO E RAMOLETE
Capt Sebastian Siga-an (Ret)
Ms Jasel Rabano

Ms Michelle Cayabyab
Mr Noel Madriaga
Mr Rommel Ramirez

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Related Initiatives

Mr Rommel Ramirez, Accounting Manager and Assistant Risk Officer reported the risk related initiatives.

A. Update on Long-outstanding Liabilities on Collection Fee

The Collection Service Fee is part of the long-outstanding liabilities presented in the financial statements recorded under the account of Accrued Collection Fees. These have been incurred from 2003 to 2015.

The Remaining balance as of December 31, 2017 was P26,589,319.09, which is non-moving since 2015. Majority of the remaining balance was related to premiums.

The PNP remits payment on insurance premiums and loan payment. However, only service fees on loan payments are automatically withheld upon remittance to PSMBFI.

The Collection Fee has been a long-outstanding liability and based on PSMBFI policy on liabilities, liability accounts which are presented in the financial statement for more than 12 months or 1 year from the date of recording in the books of account shall be treated as long-outstanding and should be treated properly by removing or adjusting the said account into another appropriate account.

According to the auditors of Insurance Commission, closure of this account requires board resolution with a statement that the amount shall be paid as soon as there is a valid claim that may arise in the future.

The contract with the PNP states that PSMBFI agrees and obligates itself to pay a service fee of one percent (1%) **of the total amount collected** (loan amortizations and premiums) and which shall be paid monthly by deducting the equivalent 1% from

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PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

February 21, 2018 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR KEITH ERNALD L SINGIAN
DIR RICARDO C MARQUEZ
DIR LYNDON G CUBOS

DIR JOHN Q SOSITO
PDIR NAPOLEON C TAAS
ATTY MATTHEW P BACCAY

Absent :

DIR LYNETTE M TADEO

Resource Persons / Guests:

DIR MARIO A AVENIDO
DIR ARMANDO E RAMOLETE
Capt Sebastian Siga-an (Ret)
Atty Rizalina Lumbea

Ms Jasel Rabano
Ms Michelle Cayabyab
Mr Noel Madriaga
Mr Rommel Ramirez

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Report

A. Long Outstanding Liabilities on Collection Service Fees

This is regarding the recorded service fee payables to PNP, which is part of the long-outstanding liabilities presented in the financial statements recorded under the account of Accrued Collection Fees. The amounts have been incurred since 2003 up to year 2015. As of December 31, 2017 the remaining balance registered at P26,589,319.09 which has been non-moving since 2015. This amount is related only to Service Fees on premiums since service fees related to loan payments are automatically withheld by PNP upon remittance of collection to PSMBFI.

Long-outstanding and non-moving liabilities should be treated properly by removing or adjusting the said account into another appropriate account. The issue being considered is whether to pay the amount to the PNP or close the account to the Retained Surplus.

Several documents have underscored that PSMBFI is exempted from collection service fees on insurance premium:

1. Memorandum from DC to the Chief PNP dated March 5, 2001 states that :

"At present, the PNP does not charge the GSIS, BIR, PAG-IBIG and PHILHEALTH with Service Fees. As a non-stock, non-profit entity, the PSMBFI is exempted from the payment of income tax as set forth in Sec. 30 of RA 8424 (also known as the Tax Reform Act of 1997), except on income derived from its properties and activities conducted for profit."

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PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

March 13, 2018 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR KEITH ERNALD L SINGIAN
DIR RICARDO C MARQUEZ

DIR JOHN Q SOSITO
DIR LYNETTE M TADEO
ATTY MATTHEW P BACCAY

Absent :

DIR LYNDON G CUBOS
PDIR NAPOLEON C TAAS

Resource Persons / Guests:

DIR MARIO A AVENIDO
DIR ARMANDO E RAMOLETE
Capt Sebastian Siga-an (Ret)
MsJaselRabano

Mr Noel Madriaga
Mr Rommel Ramirez
Ms Mary Jean Zamora

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Report

A. Update on Tax Exemption / Revalidation from BIR

Last month, it was reported that the application for revalidation of the Certificate of Tax Exemption of PSMBFI is still on process by BIR. While the same is being processed, there is a chance that the BIR will conduct an unexpected tax audit wherein it may review not just the financial statements and tax returns of the company but also its detailed record of income and expenses.

The initial recommendation of the Management then was to subject the company to a tax compliance audit to verify the degree of compliance with the tax laws and regulations and to point out potential tax exposures. This will identify potential risk areas in the reportorial requirements to the BIR and/or recording process that may not be compliant to the latest tax laws (based on supreme court decisions and Court of Tax Appeals rulings), regulations (RR, RMO, and RMC) and best practices. If there are issues being identified, appropriate actions will be implemented immediately.

The Committee then discussed whether there is an immediate need for such engagement considering that all transactions of the company are above board. One of the options discussed is to retain the status quo and only proceed with the engagement once BIR reports its findings. The other option is to proceed with the engagement for a tax compliance audit but determine whether the same could just form part of the external audit of the financial statements conducted annually or whether this will need a separate engagement.

As an update, Mr Ramirez, Assistant Risk Officer, presented the benefits of Tax Compliance Review which include, but may not be limited to, the following:

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PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

May 21, 2018 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR KEITH ERNALD L SINGIAN
DIR RICARDO C MARQUEZ
DIR JOHN Q SOSITO

DIR LYNETTE M TADEO
PDIR NAPOLEON C TAAS
ATTY MATTHEW P BACCAY

Absent :

DIR LYNDON G CUBOS

Resource Persons / Guests:

DIR ARMANDO E RAMOLETE
Capt Sebastian Siga-an
Ms Jasel Rabano
Atty Rizalina Lumbera

Ms Michelle Cayabyab
Mr Rommel Ramirez
Ms Cherelle Pablo

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Report

A. Tax Audit for the period ending December 31, 2017

In preparation for the possible audit by the BIR, PSMBFI needs to have a self-check examination. The activity is similar to financial statements (FS) audit but with different objective.

The objective of FS audit is to provide an opinion whether the financial statement is in accordance with the Philippine Financial Reporting Standards or PFRS. The objective of the tax audit on the other hand, is to verify the degree of compliance with the tax laws and regulations and to point out potential tax exposures. This will identify potential risk areas in our reportorial requirements to the BIR and/or recording process that may not be compliant to the latest tax laws (based on supreme court decisions and Court of Tax Appeals rulings), regulations (RR, RMO, and RMC) and best practices. If there are issues being identified, appropriate actions will be implemented immediately.

Last March 2018, the Board of Trustees has approved the recommendation of the management to audit the tax compliance of PSMBFI for the year ending December 31, 2017. The tax audit shall be conducted by an independent firm to be recommended by the management. Management, thus, sourced out proponents and has received proposals for Tax Compliance Review and Advisory from the following firms: Roxas Cruz Tagle and Co.; Isla Lipana & Co.; SyCip Gorres Velayo & Co.; Punongbayan & Araullo; and Lumagui Law. Following are the proposals from the proponents:

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PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

June 20, 2018 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR KEITH ERNALD L SINGIAN
DIR RICARDO C MARQUEZ
DIR LYNDON G CUBOS

DIR JOHN Q SOSITO
DIR LYNETTE M TADEO
ATTY MATTHEW P BACCAY

Absent :

PDIR NAPOLEON C TAAS

Resource Persons / Guests:

DIR ARMANDO E RAMOLETE
Capt Sebastian Siga-an
Ms Jasel Rabano

Ms Michelle Cayabyab
Mr Rommel Ramirez
Ms Cherelle Pablo

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Report

A. Tax Audit for the year ending December 31, 2017

As discussed in the previous meetings, BIR may conduct a tax audit of PSMBFI, and in preparation, the company needs to have a self-check examination. In this tax audit, BIR may examine various documents to ensure that PSMBFI has not changed its business operations from being a non-stock, non-profit organization. It is usual for the BIR to provide extensive tax assessments which are only based on their computations and initial documents they have examined.

While the company is complying with the regular tax filing, there could be risks that some of the tax regulations or best practices may not have been complied in full or that the company may not be maximizing the opportunities for tax savings or minimization. The management, thus, recommended to conduct a tax audit in order to be prepared for possible BIR examination, and which recommendation was approved by the Committee and the Board. Proposals from audit firms were thus requested to consider the best proponent for the undertaking.

The objective of FS audit is to provide an opinion whether the financial statement is in accordance with the Philippine Financial Reporting Standards or PFRS. The objective of the tax audit on the other hand, is to verify the degree of compliance with the tax laws and regulations and to point out potential tax exposures. This will identify potential risk areas in our reportorial requirements to the BIR and/or recording process that may not be compliant to the latest tax laws (based on supreme court decisions and Court of Tax Appeals rulings), regulations (RR, RMO, and RMC) and best practices. If there are issues being identified, appropriate actions will be implemented immediately.

Last March 2018, the Board of Trustees has approved the recommendation of the management to audit the tax compliance of PSMBFI for the year ending December



PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

July 18, 2018 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR KEITH ERNALD L SINGIAN
DIR RICARDO C MARQUEZ
DIR LYNDON G CUBOS

DIR JOHN Q SOSITO
PDIR NAPOLEON C TAAS
DIR LYNETTE M TADEO

Absent :

ATTY MATTHEW P BACCAY

Resource Persons / Guests:

DIR ARMANDO E RAMOLETE
Capt Sebastian Siga-an
Ms Jasel Rabano

Ms Michelle Cayabyab
Mr Rommel Ramirez

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Audit Report

It is the mandate of the Office of the Internal Auditor (OIA) to conduct financial audit on the final claims of members and beneficiaries of the Association. Supporting documents of disbursement vouchers and the resulting computation and/or allocation of the benefits/claims are reviewed and validated against the PIIS.

A. Audit of Disbursement Vouchers

OIA audits the Refund of Equity Value, E-56, Off Setting, Death Claims, MER/MBIEV, and General Fund Vouchers.

For the month of June 2018, a total of 385 disbursement vouchers were pre-audited with a total amount of P36.988 Million. Out of this, 207 were Refund of Equity Value vouchers of which 3 vouchers or 1% were found to have errors and were returned for re-processing. There were 73 vouchers on Off-setting of Equity Value against past due loan in the amount of P4.546 Million of which 25 vouchers or 34% were with error. Also, 6 out of the 67 death claim vouchers audited were found to have errors and were re-processed.

All the vouchers on E-56, General Fund were found to be in order.



PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

September 14, 2018 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR LYNETTE M TADEO
DIR RICARDO C MARQUEZ

DIR LYNDON G CUBOS
DIR KEITH ERNALD L SINGIAN
DIR KIMANIE J SAROMINES

Absent :

PDIR NAPOLEON C TAAS

ATTY MATTHEW P BACCAY

Resource Persons / Guests:

DIR ARMANDO E RAMOLETE
Capt Sebastian Siga-an
Ms Jasel Rabano

Ms Michelle Cayabyab
Mr Rommel Ramirez
Ms Ma Cielo Marquez

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Related Initiatives on Social Media Bashing

Social media bashing is the state when social media becomes abusive. Bashing is described as a verbal abuse and harsh public criticism. Combined with the term social, it refers to accusatory or abusive verbal attacks via social media activities. This phenomenon is often referred to as cyber mobbing.

Examples of social bashing are insults that are created by a number of negative posts on Facebook. They become explosive when comments are personally insulting. Social bashing is a real threat for all stakeholders of PSMBFI specially criticisms regarding the company's programs or comments about PSMBFI products and services.

The following are the common issues being posted in Facebook not just in PSMBFI's official account but also in other large open groups and pages like "Police Digest sa FB" and "Buhay Lespu" among others:

1. Complaints regarding bad customer service,
2. Operational concerns: Loan overpayments; follow-ups on the release of claims
3. Increase in premium deductions brought about by the increase in base pay of PNP personnel;
4. Proliferation of fake news and unwarranted bashing

There are risks and problems involved in social media bashings. Among these are:

1. Social media bashing is detrimental to the image of the company. It can adversely affect the trust and confidence of our members.
2. It would be difficult to attract new members.
3. Withdrawal of membership
4. Loss of income

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PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

October 12, 2018 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR LYNETTE M TADEO
DIR RICARDO C MARQUEZ
DIR LYNDON G CUBOS

DIR KEITH ERNALD L SINGIAN
DIR KIMANIE J SAROMINES
ATTY MATTHEW P BACCAY

Absent :

PDIR NAPOLEON C TAAS

Resource Persons / Guests:

DIR ARMANDO E RAMOLETE
Capt Sebastian Siga-an
Ms Jasel Rabano
Ms Michelle Cayabyab
Mr Rommel Ramirez

Ms Ma Cielo Marquez
Ms Mary Jean Zamora
Ms Cherelle Pablo
Ms Rowena Sermonia
Ms Mary Jane Velaquez

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Related Initiatives on the Official FB Page Performance and Management

The Corporate Communications Officer presented a statistical report of the PSMBFI Facebook Page's performance in terms of insights (page likes, page followers, page inquiry, page reach, and page reactions) from the time it was officially launched in July 2017 until September 2018, and the plans and strategies for CY 2019. The statistics came from Facebook itself, based on the activities of the PSMBFI FB page.

In terms of page likes, the PSMBFI FB page has already gained 2,898 likes. It is still far from the target of 10,000 likes by July 2019 and the target is expected to be achieved by adding more valuable posts and statuses such as videos and info graphics that catches the attention of Facebook users.

In terms of Page Followers, there are already 3,110 page followers. The target is about 200,000 fan-base and in order to reach this, there is a need to be active and engaged by following legitimate and relevant accounts.

As for the page reach, which shows if there are accounts that shares posts from PSMBFI, shares increased in June-July 2018 due to the PSMBFI explainer videos posted. There is still a need to widen the reach of the PSMBFI FB Page and one way to achieve this is to produce more linkages with organic pages related to the members and stakeholders. Some of the organic pages being followed by PSMBFI are the PNP, PNP-Police Community Relations Group, various Police Stations, PNPA, DENR, MMDA and other partner agencies.

For the Page Inquiry, which covers the questions and comments received by the PSMBFI FB page, a total of 1,301 message connections were registered as of October

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PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

November 21, 2018 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR LYNETTE M TADEO
DIR RICARDO C MARQUEZ
DIR LYNDON G CUBOS

DIR KEITH ERNALD L SINGIAN
DIR KIMANIE J SAROMINES
ATTY MATTHEW P BACCAY

Absent :

PDIR NAPOLEON C TAAS

Resource Persons / Guests:

DIR ARMANDO E RAMOLETE
Capt Sebastian Siga-an
Ms Jasel Rabano
Ms Michelle Cayabyab

Mr Rommel Ramirez
Ms Ma Cielo Marquez
Ms Mary Jean Zamora
Ms Cherelle Pablo

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Related Initiatives on Target Market Risk

The enactment of GSIS Act of 1997 has excluded the Philippine National Police (PNP), among other public safety practitioners, from the social insurance coverage of GSIS, without providing for an alternative option. After the passage of that law, the families of deceased policemen no longer received insurance benefits.

As a remedy, PSMBFI was organized with the primary purpose of providing insurance protection, and financial and material aid to its members, which are limited to public safety practitioners as defined in the PSMBFI's By-Laws. As membership grew, PSMBFI had expanded to focus on offices which cover the same risk hazards such as MMDA, BFP, and LTO to name a few.

Target Market Risk is the possibility that the target market will not patronize the company's products and/or services of the seller company. A target market is a group of specific customers which the company can sell products and services aligned to the needs of the specific market.

As of date, the PNP remains to be the largest market of the company. However, current environmental forces are now challenging the "competitive" position of PSMBFI as the main insurance provider of public safety professionals, also known as the company's target market.

Several causes of risks are as follows:

1. Political Risk

Currently, the state pension fund under Government Service Insurance System (GSIS) is inclined to take in newly-hired uniformed personnel under its social security coverage in support of President Duterte's thrust for a more sustainable pension fund for soldiers and policemen.

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