



Republic of the Philippines
COMMISSION ON AUDIT

Commonwealth Avenue, Quezon City

NATIONAL GOVERNMENT SECTOR
Cluster 4- National Defense and Security

INDEPENDENT AUDITOR'S REPORT

The Commanding General
Philippine Army
Fort Bonifacio, Taguig City

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the **Philippine Army**, which comprise the Statement of Financial Position as at December 31, 2016, and the related Statements of Financial Performance, Statement of Cash Flows, Statement of Changes in Net Assets/Equity and Comparison of Budget and Actual Amounts for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Public Sector Accounting Standards (PPSAS), 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As discussed in Part II of this report, the following audit observations affected the fair presentation of financial statement of the Philippine Army, to wit:

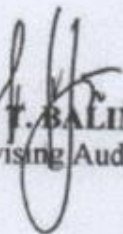
1. The accuracy and existence of the balance of Inventory accounts totaling ₱6,375,940,639.58 is not reliable due to : (a) the discrepancy of ₱2,359,889,621.63 between the Accounting and Property records of some inventory accounts; (b) the withdrawal of fuel thru Fleet Cards amounting to ₱101,965,035.15 were erroneously recorded as inventory instead of expense; (c) the Fuel, Oil and Lubricants with an inventory balance of ₱1,020,847,903.33 has no corresponding record with Property/Supply Office; (d) failure to conduct physical count on inventories worth ₱92,169,498.55 in two PA units; (e) dormant/inexistent inventory balance of ₱131,806,183.81; and f) unrecorded Military, Police and Traffic Supplies Inventory of ₱46,704,609.17.
2. The accuracy, reliability, and existence of the Property Plant and Equipment (PPE) accounts with an aggregate balance of ₱98,472,188,006.46 is doubtful due to: (a) non-reconciliation of accounting and property records in HPA and in four PA units with discrepancy of ₱2,541,444,420.73; b) non-reclassification to semi-expendable inventory of PPE with cost below ₱15,000.00, totaling ₱28,742,602.28; c) inclusion of unserviceable PPEs amounting to ₱119,454,963.19; d) non recording of donated equipment totaling ₱3,383,315.00; and e) non-recording of the 36 units Blast Fragmentation Kit with total cost of ₱1,500,000.00.
3. The balance of Deposit on Letters of Credit account is overstated by ₱63,397,000.00 due to the non-adjustment upon acceptance of the deliveries in pursuance of GAM, Volume II.
4. Erroneous charging and recording of the electric and water consumption of the PA units/offices, quarters and concessionaires resulted in the overstatement of the Accumulated Surplus/Deficit by ₱16,258,830.84 and understatement of Trust Liabilities by the same amount.
5. Previous years' bills of tenants for light and water totaling ₱7,133,248.13 remained uncollected violating the rule that government funds shall be spent solely for public purposes. The said amount was likewise not reflected in the books of PA; thus, understating the receivable account for the same amount.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the **Philippine Army** and its field operating units as of December 31, 2016 and their financial performance, cash flows, changes in net asset/equity, and comparison of budget and actual amounts for the year then ended in accordance with Philippine Public Sector Accounting Standards (PPSAS).

COMMISSION ON AUDIT

By:


EISA T. BALINA
Supervising Auditor

June 28, 2017