

EXECUTIVE SUMMARY

A. INTRODUCTION

The Philippine Army (PA) was created as a major command of the Armed Forces of the Philippines (AFP) pursuant to Executive Order No. 92 dated 04 October 1947. It is mandated to conduct operations on land, in coordination with the other Major Services in support to the AFP mission. The vision of the organization is to become a world-class Army that is a source of national pride by 2028. Its mission is to develop, organize, train, equip, support and sustain Army forces for the conduct of prompt and sustained ground operations to accomplish the AFP mission and are performed by the Functional Commands. The conduct of prompt ground operations is performed by Ground Operating Units. The Specialty Enablers are the regiments that provide the specialized skills and capabilities to combined arms operations and the PA-Wide Service Support and Separate Units provide the corresponding support services

The arrangement of units highlights the Army's role as a force provider for joint and combined operations. This will also serve as the baseline for transition to the realization of the PA-Medium Term Capability Development.

Under the present organizational set up, the PA is headed by Lieutenant General, Jose C. Faustino Jr., Commanding General (CG). He formally assumed as the 63rd CGPA on February 16, 2021. He replaced Lieutenant General Cirilito E. Sobejana who took on a new responsibility as the 55th Chief of Staff of the Armed Forces of the Philippines. He is assisted by Vice Commander, MGen Robert C. Daus¹ and Chief of Staff, MGen Rowen S Tolentino² and 17 equivalent technical staff.

For CY 2020, the Command has a total strength of 101,078 consisting of 9,030 officers and 90,204 enlisted personnel. Its work force is supplemented by 1,380 regular civilian employees, 31 co-terminus with the incumbent, 202 job orders and 231 retainers.

B. FINANCIAL HIGHLIGHTS

The summary of appropriations, comparative sources and uses of funds, financial position, and financial performance of the Philippine Army for CYs 2020 and 2019 are presented below:

- a. Summary of total appropriations, allotment received, obligations incurred and balances follows while the details are presented in **Annex A**.

¹ Assumed office on 25 November 2020

² Assumed office on 20 December 2019

Fund Source	Amount (in Thousands)			
	Appropriations	Allotments	Obligations Incurred	Balances
Regular Fund	₱91,666,282	₱91,417,148	₱89,421,089	₱1,996,059
Special Purpose Fund	4,839,271	4,839,271	4,541,941	297,330
Automatic Appropriation	685,888	685,888	682,405	3,483
Continuing Appropriation	3,451,233	3,451,233	2,863,883	587,350
BCDA Fund	-	653,155	84,277	568,877
Total	₱100,642,674	₱101,046,695	₱97,593,595	₱3,453,100

b. Financial Position

Particulars	Amount (in Thousands)		Increase (Decrease)
	2020	2019	
Financial Position			
Assets	₱124,586,449	₱115,849,824	₱8,736,625
Liabilities	5,744,976	5,997,804	(252,828)
Equity	₱118,841,473	₱109,852,020	₱8,989,453

c. Financial Performance

Particulars	Amount (in Thousands)		Increase/ (Decrease)
	2020	2019	
Financial Performance			
Total Revenue	₱96,996	₱109,413	(₱12,417)
Less: Current Operating Expenses			
Personnel Services	78,723,588	77,145,018	1,578,570
Maintenance & Other Operating Expenses	7,441,473	7,667,467	(225,994)
Financial Expenses	2	1	1
Non-Cash Expenses	1,502,146	1,422,253	79,892
Total Current Operating Expenses	87,667,208	86,234,739	1,432,469
Surplus/(Deficit) from Current Operations	(87,570,212)	(86,125,326)	(1,444,886)
Net Financial Assistance/ Subsidy	95,181,425	91,508,726	3,672,699
Other Non-Operating Income	125,375	74,431	50,944
Gains	46	2,232	(2,186)
Losses	(436)	(579)	(143)
Surplus for the period	₱7,736,199	₱5,459,484	₱2,276,715

C. SCOPE OF AUDIT

The audit covered the accounts and operations of the PA for CY 2020³. It was conducted on a test basis to: (a) verify the level of assurance that may be placed on Management's assertions on the financial statements; (b) determine the propriety of transactions and their compliance with pertinent laws, rules and regulations; (c) identify opportunities for improvement; and (d) ascertain the extent of implementation of prior years' audit recommendations.

³ Except 8th Infantry Divisions who failed to submit their Audit Report/Management Letter

The audit of the CY 2020 accounts and operations of the field units of the PA was performed by the Audit Teams assigned thereat. The results of such audit formed part of the audit observations herein and, in turn, the basis of the Audit Certificate accompanying this report.

The audit of Confidential and Intelligence Funds was limited to the cash advances drawn under these funds in accordance with Section 6.3.5 of Joint Circular 2015-01 dated 08 January 2015 of the Commission on Audit (COA), Department of Budget and Management (DBM), Department Interior and Local Government (DILG), Governance Commission for Government Owned or Controlled Corporations (GCG) and Department of National Defense (DND).

D. INDEPENDENT AUDITOR'S REPORT

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Philippine Army as at 31 December 2020 because of (i) accounting errors and omissions totaling ₱4,526,718,411.42 representing 5.16 percent of its total current operating expenses of ₱87,667,207,919.97; and (ii) accounting deficiencies amounting to ₱8,768,637,605.31 (**Annex B**).

E. SUMMARY OF AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The reliability of PA's Consolidated Financial Statements cannot be established due to accounting errors and omissions totaling ₱4,526,718,411.42 which include unrecorded deposits, inventories, and PPEs, erroneous recording of fund transfers, unreconciled accounting and property records, non-preparation and submission of RSMIs, among others; thereby, resulted in the misstatement of affected accounts. (*Observation No. 1*)

We recommended that Management direct the concerned accountants of ASPA and Field Accounting Units (FAUs) to correct immediately all accounting errors discussed herein.

2. Accounting deficiencies in recording and reporting financial transactions totaling ₱8,768,637,605.31 undermined the quality of information presented in the financial statements. (*Observation No. 2*)

We recommended that Management: a) require the concerned AO and the Office of the Assistant Chief of Staff for Operations (G3) to submit the lacking documentation without further delay for evaluation; b) direct concerned property offices of Headquarters Philippine Army (HPA) and 3rd ID to require the prompt submission of RIS by end users and the monthly RSMIs so that utilization of supplies/inventories will be recognized in the books as an expense in the period these were actually used; c) require respective Field Property Accountability Office (FPAO) to timely submit RPCI and direct said Office to reconcile property records with the Accounting records; d) require the ASPA and

PAO, GS to account fully the existing discrepancy of ₱1,241,878,087.25 and conduct periodic reconciliation of their respective records to identify and adjust discrepancy, if any; e) direct the Accounting and Property Units to reconcile their records pertaining to unrecorded properties and unreconciled discrepancies and thereafter, prepare the necessary journal entries, if warranted; f) direct the Chief Accountant, 14FAU to secure copy of Deed of Donation for donated properties and appraise its value, if not indicated and thereafter, draw a JEV to record donated properties in the books of accounts; g) require the Chief, 6FAU to exert effort to verify composition of the Other Assets account amounting to ₱10,542,410.73 and make necessary adjustments, if warranted; and h) require the respective FPAOs to prepare and maintain Property Cards as a permanent file of their office in accordance with the form and instructions set forth in the GAM for NGAs.

3. The HPA continued to maintain 17 bank accounts with the LBP which are already inactive and/or considered unnecessary; hence, contrary to Section 3, DOF-DBM-COA Joint Circular No. 4-2012 dated 11 September 2012. Likewise, submission of BRS remained delayed despite enrollment of some accounts with the Landbank *weAccess*; thus, not in keeping with Chapter 21 of GAM Volume 1. Moreover, three MDS accounts, instead of a single account, were utilized to fund intended disbursements through two level of transfer of funds from mother account to disbursing (FCPA) account which contribute to the volume of transactions. (*Observation No. 3*)

We recommended that Management: a) direct the Army Chief Accountant to submit immediately all unsubmitted BRS and observe timely submission of reports as prescribed by the GAM; b) consider the need to close without further delay those inactive and unnecessary accounts or provide satisfactory explanation as to the necessity for its continued maintenance including the maintenance of the three primary MDS accounts; and c) revert the remaining balance of ₱32,491,553.48 under the 72-100RF account to the BTr pursuant to EO No. 431.

4. The balances of *Due from Officers and Employees* and *Other Receivables* accounts of six field units include dormant accounts amounting to ₱1,193,394.40 and ₱3,200,276.98, respectively, which have been outstanding for 10 to 37 years, due to failure of Management to monitor liquidation of cash advances and enforce settlement of accounts; thus, collectability of the same is doubtful. (*Observation No. 4*)

We recommended that Management direct the concerned Accountant to: a) conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when becomes due and demandable; b) exhaust all possible remedies to collect receivables and demand liquidation thereof or file appropriate judicial action against AO or against his estate, if deceased, among others; and c) reassess chances of recoverability of receivables, if warranted, and consider

filing a request to write-off dormant accounts with COA pursuant to COA Circular No. 2016-005, dated December 19, 2016.

5. The *Due from Government Owned and/or Controlled Corporations* balance of ₱9,129,158,169.51 includes excess balances/unutilized fund transfers amounting to ₱2,394,848,286.08 aged three years and above which were not refunded by PITC to the Philippine Army or remitted to the Bureau of the Treasury contrary to E.O. No. 431 and COA Circular 94-013. (*Observation No. 5*)

We reiterated our prior year's recommendation that Management: a) demand the immediate refund of long-outstanding excess/unutilized balances totaling ₱2,394,848,286.08 and subsequently remit the same to the BTr; and b) require the PITC to deliver immediately the requested items for procurement which are crucial in the Agency's operations.

6. The non-submission of accounting reports and supporting documents amounting to ₱412,655,610,203.21 limited the scope of audit and precluded prompt examination of transactions, detection and corrections of errors and deficiencies, and timely reporting of audit results to Management. (*Observation No. 6*)

We recommended that Management direct the concerned Chief Accountants to submit without further delay all the unsubmitted financial reports and supporting documents for CY 2020 and henceforth, observe strictly the reporting deadlines

7. The non-implementation of 10 projects from CYs 2015 to 2018 costing ₱85,578,868.65 resulted in unutilized Repairs, Maintenance and Construction (RMC) Funds and non-attainment of fund's intended purpose; thus, depriving the agency of timely benefits that could have been derived therefrom had those projects been implemented as programmed. (*Observation No. 7*)

We recommended that Management coordinate with Petron Corporation on the immediate delivery/implementation of 10 projects under the RMC Fund and make a representation with DND on the inclusion of timeframe in the Memorandum of Agreement within which the project shall be undertaken.

8. The pecuniary liability of five PA personnel who filed their requests for relief from property accountability for lost firearms could not be established due to the outdated list of firearms contained in DND Circular No. 34 resulting in the stalled issuance of COA Decisions on said requests and subsequent settlement of liability, in case requests are denied. (*Observation No. 8*)

We recommended that Management: a) make immediate representations with concerned DND office/officials relative to updating of DND Circular No. 34; or b) create a Technical Working Group that will primarily update both existing list of firearms and cost valuation authorized in the outdated DND Circular.

9. The utilization of the Army General Hospital (AGH) Mess Fund was inconsistent with existing laws, rules and regulations due to: a) irregular use of income sourced from PhilHealth Trust Receipts (PHTR) as initial funding for the mess support; b) absence of legal basis or authority to open bank account for the purpose; c) lack of check and balance in the disbursement of funds; and d) improper accounting of collections and disbursements. (*Observation No. 9*)

We recommended that Management: a) require concerned official of Army General Hospital (AGH) to submit explanation on the use of Philhealth Trust Receipts (PHTR) to fund the mess requirements of patients falling under non-military casualty category; b) direct concerned official of AGH to submit to the Audit Team legal authority in the opening of bank account for Mess Fund; c) consider the revision of AGH SOP No. 1 particularly the provisions on signatories to disbursement vouchers; and d) direct the Chief Accountant to maintain subsidiary ledger for Mess Fund to monitor additions to and deductions from the Fund.

10. Extremely huge amounts of cash advances ranging from ₱22 million to ₱89 million were granted to accountable officers by 1st ID, rendering government funds exposed to risk of loss or misappropriation. (*Observation No. 10*)

We recommended that Management pay the Service Allowance and Subsistence Allowance of members of Citizen Armed Force Geographical Unit (CAFGU), thru Cash Card System (CCS) or any similar products offered by any Government Servicing Banks or Authorized Government Depository Banks (AGDBs) to protect the interest of the government.

11. Recorded four (4) parcels of land in the books of 5th Infantry Division amounting to ₱270,597,823.10 were not yet registered in the name of the Division; thus, ownership thereof could not be ascertained. (*Observation No. 11*)

We recommended that Management facilitate the titling of four lots to prove ownership thereof and to avoid further risk of future claims by private individuals.

The foregoing observations and recommendations were brought to the attention of concerned officials of the agency in our letter dated May 10, 2021 for further comment. Management's views and reactions were incorporated in this report, where appropriate.

F. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 101 prior years' audit recommendations, 47 were implemented while 54 were not implemented, of which 11 were reiterated in Part II of this report.