

EXECUTIVE SUMMARY

A. INTRODUCTION

Pursuant to the provisions of Executive Order No. 92 dated October 4, 1947, the Philippine Army (PA) was created as a major command of the Armed Forces of the Philippines (AFP). It is mandated to conduct operations on land, in coordination with the other major services in support to the AFP mission. Its mission is to organize, train, equip, deploy and sustain ground forces in the conduct of support to operations to “win the peace, prosperity and progress in order to help the Filipino nation create an environment conducive for sustainable development and just and lasting peace.”

Its Organizational Outcome as reflected in the Organizational Performance Indicator Framework (OPIF) of the Philippine Army includes the following:

1. Effective and efficient Army forces; and
2. Professional and capable Army loved by the people.

In consonance thereto, the thrust and programs of the Philippine Army are in support and aligned to the organizational outcome of the Department of National Defense as follows:

1. Capability to uphold the sovereignty and territorial integrity of the State assured;
2. Internal stability promoted and sustained;
3. Highest standard of capability and preparedness against calamities and emergencies addressed; and
4. Security sector reforms implemented.

To carry out its thrusts and programs, in line with its mandate in support of the AFP mission, 15 field units were established in different parts of the country as follows:

	Division/Engineer Brigade	Location	Servicing FAU
1	1 st Infantry (Tabak) Division	Camp Major Cesar L. Sang-an, Pulacan, Labangan, Zamboanga del Sur	9 th FAU
2	2 nd Infantry (Jungle Fighter) Division	Camp Capinpin, Sampaloc, Tanay, Rizal	4 th FAU
3	3 rd Infantry (Spearhead) Division	Camp General Macario Peralta Jr. Jamindan, Capiz	6 th FAU
4	4 th Infantry (Diamond) Division	Camp Edilberto Evangelista, Patag, Cagayan de Oro City	10 th FAU

	Division/Engineer Brigade	Location	Servicing FAU
5	5 th Infantry (Star) Division	Camp Melchor F. dela Cruz, Upi, Gamu, Isabela	2 nd FAU
6	6 th Infantry (Kampilan) Division	Camp. BGen Siongco, Awan Datu Odin, Sinusuat, Maguindanao	12 th FAU
7	7 th Infantry (Kaugnay) Division	Fort Magsaysay, Nueva Ecija	3 rd FAU
8	8 th Infantry (Stormtrooper) Division	Camp Lukban, Maulong, Catbalogan, Samar	8 th FAU
9	9 th Infantry (Spear) Division	Camp Weeme Martillana, Pili, Camarines Sur	5 th FAU
10	10 th Infantry (Agila) Division	Camp. General Manuel T. Yan, Brgy. Tuboran, Mawab, Compostela Valley Province	11 th FAU
11	Mechanized Infantry Division	Camp O'Donnell, CapasTarlac	1 st FAU
12	51 st Engineer Brigade (absorbed the ECBs under the 54 th EB)	Camp Rigoberto J. Atienza, Libis, Quezon City	14 th FAU
13	52 nd Engineer Brigade (absorbed the ECBs under the 55 th EB)	Manolo Fortich, Fortich, Bukidnon	10 th FAU
14	53 rd Engineer Brigade	Camp Lapu-Lapu, Lahug, Cebu City	7 th FAU
15	54 th Engineer Brigade	Camp BGen AF Fernandez, Jr. Cabatangan, Zamboanga City	16 th FAU

Under the present organizational set up, the PA is headed by Commanding General Lieutenant General Rolando Joselito D. Bautista who assumed office on October 5, 2017. He replaced Lieutenant General Glorioso V. Miranda. He is assisted by his Vice Commander, MGen Robert M. Arevalo, Chief of Staff, MGen Danilo Chad D. Isleta and 16 equivalent technical staff.

For CY 2017, the Command has a total strength of 95,479 consisting of 6,440 officers, 76,317 enlisted personnel, 350 provisional 2LT and 12,372 candidate soldiers. Its work force is supplemented by 1,285 civilian employees.

MAJOR ACCOMPLISHMENTS

As reported, the major accomplishments of the Command for CY 2017 included the following:

1. In CY 2017, The Philippine Army remains focused and decisive in fulfilling its mandate and tasks as guided by the AFP Development Support and Security Plan “Kapayapaan”2017-2022 and the Army Transformation Roadmap (ATR). For the year, Army units surpassed the required level of mission capability in ground operations with an accomplishment rate of 106 percent. The Major Final Outputs on Territorial Defense, Security and Stability Services was likewise accomplished with the maintenance of 198 tactical battalions out of the target 190, registering an accomplishment rate of 104 percent; 82 ready reserve battalions out of the target 82 were maintained with an accomplishment rate of 100 percent.
2. In line with its mission of territorial defense, security and stability internal security operations were sustained for the year with a total of 343,708 combat operations conducted. 157,603 against the CPP-PA and 186,105 against lawless elements (LLEs). As a result, the government gained a total of 553 firearms from the communist terrorists and 1,008 from LLEs. Overall, the operations reported to 1,210 enemy fatalities and 96 wounded while 1,143 others were captured, surrendered or apprehended. These combat operations were supplemented by 86,048 Barangay Intelligence Networks and various Civil Military Operations (CMO) initiatives. With the scrapping of peace talks with the CPP-NPA and negotiations with MNLF and MILF in place, the CMO efforts of the Army further pursued Information Support Affairs (ISA)-driven activities, while Civil Relations and Civic Action activities contributed to nation with the strategic, operational, and tactical engagements resulting to joint activities and projects.
3. On its mission of Humanitarian Assistance and Disaster Response (HADR), the Command primarily fulfilled its mission by achieving the highest standard of capability and preparedness for catastrophes. Training on Disaster Response and Relief Operations (DRRO) for Army personnel were maintained; 41 DRRO trainings were completed, benefitting 955 personnel. Accomplishments in HADR operations were likewise maintained, notably in the area of disaster response with 4,008,634 beneficiaries.
4. Relative to its mission of International Defense and Security Engagements (IDSE), the PA conducted 129 IDSE activities with the Army’s strategic and defense partners to strengthen relations with other nation for the improved facilitation of knowledge exchange and inter-state interactions. Sustainment of bilateral relations has also resulted to army-to-army agreements, and subsequently six (6) Terms of Reference that serve as solid references of engagement between the Philippine Army and other allied armies.
5. On the Force Level Command and Control, Training and Support, the Command pursued numerous lines of action to provide force-level support, including the creation of a Technical Working Group for Army Strategic Communication Plan; establishment of the Army Social Media Center; and the conduct of the Army Logistics Forum 2017. Several exigent areas of concern, particularly the Army’s

support to Martial Law which led to the successful liberation of Marawi City, encompassed the Army's focused efforts in 2017.

OPERATIONAL HIGHLIGHTS

Philippine Army
Target vis-à-vis Accomplishment
As of December 31, 2017

MFO	Target	Accomplishment	% of Accomplishment
1. Number of tactical battalions maintained	190	198	104%
2. Percentage of operational readiness of tactical battalions	79%	76%	96%
3. Average percentage of effective strength of tactical battalions that can be mobilized within one hour as dictated by higher authorities	90%	94%	104%
4. Number of ready reserve battalions maintained	82	82	100%
5. Percentage of operational readiness of ready reserve battalions	60%	60.07%	100.11%

B. FINANCIAL HIGHLIGHTS

The summary of appropriation, comparative sources and uses of funds, financial position, and financial performance of the Philippine Army for CY 2017 and 2016 are presented below:

- a) Summary of total appropriations, allotment received, obligations incurred and balances is as follows:

Fund Source	Amount (in Thousands)			
	Appropriations	Allotments	Obligations Incurred	Balances
Regular Fund	₱57,434,255	₱ 57,377,405	₱57,334,992	₱ 42,413
Special Purpose Fund	6,201,878	6,201,878	6,197,915	3,963
Automatic	287,825	287,825	287,825	-

Fund Source	Amount (in Thousands)			
	Appropriations	Allotments	Obligations Incurred	Balances
Appropriation				
Other Releases				
GHQ-MOOE		25,431	25,426	5
PN-MOOE		3,500	3,500	-
PAF-MOOE		3,834	3,834	-
Total Other Releases		32,765	32,760	5
Continuing Appropriation				
DBM-MOOE		1,347,356	1,335,118	12,238
GHQ-MOOE		46,011	46,011	-
DBM-CO		161,803	158,069	3,734
DBM-CO-ARMM		54,000	52,730	1,270
DBM-Contingent Fund		97,500	94,885	2,615
PN-MOOE		3,500	3,431	69
PAF-MOOE		3,500	3,500	-
Total		1,713,670	1,693,744	19,926
BCDA Fund		696,291	34,308	661,983
Grand Total	₱ 63,923,958	₱ 66,309,833	₱ 65,581,543	₱ 728,290

The details of allotments, obligations and balances are presented in **Annex A**.

b.) Comparative Financial Position

Particulars	Amount (in Thousands)	
	2017	2016
Financial Position		
Assets	₱106,004,542	₱ 94,123,262
Liabilities	3,599,991	3,459,235
Equity	102,404,551	90,664,027

c.) Comparative Financial performance

Particulars	Amount (in Thousands)	
	2017	2016
Financial Performance		
Total Revenue	₱ 92,971	₱ 118,863
Less: Current Operating Expenses		
Personnel Services	48,147,257	43,858,432
Maintenance & Other Operating Expenses	5,815,027	4,717,555
Financial Expenses	2	-

Particulars	Amount (in Thousands)	
	2017	2016
Non-Cash Expenses	1,345,232	1,497,097
Total Current Operating Expenses	₱ 55,307,518	₱ 50,073,084
Surplus/(Deficit) from Current Operations	(55,214,547)	(49,954,221)
Net Financial Assistance/Subsidy	₱ 60,114,495	₱ 52,433,256
Gains	4,835	3,486
Losses	-	(613)
Other Non-Operating Income	21,207	
Surplus for the period	₱ 4,925,990	₱ 2,481,908

C. SCOPE OF AUDIT

The audit covered the financial transactions and operation of the PA for CY 2017.

D. INDEPENDENT AUDITOR'S REPORT

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Philippine Army in view of the accounting errors and deficiencies as shown in the Matrix of Analysis on the Effects of the Misstatements on the Financial Statements marked as **Annex B**, as follows:

1. The balance of *Cash in Bank – LCCA* in the total amount of ₱1,057,155,752.91 is misstated by ₱9,115,538.86 due to unrecorded reconciling items as at year-end, hence affecting the fair presentation of the financial statements contrary to the requirements of Section 15, Chapter 2 of the Government Accounting Manual (GAM), Volume I. (*Observation No. 1*)

We recommended that Management direct the ASPA to recognize the reconciling items of ₱9,115,538.86 (net) in the books of accounts to present fairly the financial statements as at year-end.

2. Stale checks and cancelled List of Due and Demandable Accounts Payable – Advice to Debit Account (LDDAP-ADA) amounting to ₱4,959,177.61 and ₱1,121,953.62, respectively, for a total of ₱6,081,131.23 were not recognized and reverted to the *Cash – MDS, Regular* as at year-end contrary to Section 44 and 54, Chapter 6 of GAM, Volume I; thereby resulting in the misstatements in the said account and its affected liability account by the same amount. (*Observation No. 2*)

We recommended that management: (a) direct the Chief of Disbursement Branch, FCPA and 15th FSFO to cancel the stale checks and thereafter, submit on a monthly basis the List of Unreleased Checks showing the voided, spoiled and unclaimed stale

checks, if any, attached to the RCI; (b) require the Chief, ASPA to prepare the necessary adjustments taking up the cancellation and replacement of stale checks of ₱4,774,399.36; and (c) require the Chief, 15th FAU to prepare the necessary adjustments taking up (i) cancellation of stale checks of ₱184,778.25; and (ii) invalidated LDDAP-ADA of ₱1,121,953.62.

3. The balances of *Advances for Operating Expenses*, *Advances to Special Disbursing Officers*, *Advances for Payroll* and *Advances to Officers and Employees* accounts of the Philippine Army in the total amount of ₱101,287,911.76 is unreliable in view of (a) delayed/non-submission of liquidating documents contrary to COA Circular 97 – 002 dated February 10, 1997; and (b) misstated balance of the *Advances for Operating Expenses* account in the amount of ₱73,187,803.36 of the HPA; thus, affecting the fair presentation of the accounts in the financial statements as at year end contrary to the requirements of Section 15, Chapter I of GAM, Volume I. (*Observation No. 3*)

We recommended that Management: (a) require the Accountable Officers to: (i) submit immediately the liquidation reports/documents pertaining to their unliquidated cash advances and/or refund the unused balances, if any; and (ii) secure mandatory clearances prior to relief/transfer of unit assignment, schooling/training and furnish copy of such clearance to ASPA and 15th FAU for monitoring purposes; (b) direct the ASPA and the Field Accounting Units to make the necessary adjustments to correct the misclassification made to *Advances for Operating Expenses* to reflect a more reliable balance of the account and other affected accounts in the FS; (c) require the Head of Commands/Offices/Units to ensure that AOs secured their mandatory clearances upon their relief/transfer of unit assignment, schooling/training; and (d) require the Head of the 52nd EBde to stop the practice of granting cash advances intended for payments on account of infrastructure projects or other undertaking on a project basis.

4. The balance of the *Due from NGAs* (PS-DBM) account as of December 31, 2017 in the total amount of ₱148,413,536.42 is unreliable in view of the unrecorded fund transfer, deliveries, adjustments and unreconciled discrepancy existing in the books of the Agency and PS-DBM amounting to ₱113,553,512.16. Moreover, long outstanding advances to Government Arsenal and PS-DBM ranging from more than one year to more than three years were noted in view of the: (a) delays in the supply and delivery of goods and services by PS-DBM; (b) non-immediate refund of the unspent balances for subsequent remittance to the Bureau of Treasury; and (c) slow rate of deliveries by Government Arsenal equivalent to only 25 per cent of the required delivery. (*Observation No. 4*)

We recommended that Management require: (a) concerned Chief Accountants to make representation with PS-DBM in reconciling the differences between the books of the Agency and recognize in the books of accounts the duly validated reconciling items; (b) Philippine Army Procurement Center (PAPC) in HPA as the monitoring Office for PS-DBM transactions to require the HPA units to submit to ASPA the

delivery receipts and other documents covering the delivered/withdrawn supplies from the PS-DBM for proper recording in the books; (c) the PA units to maintain records of succeeding PS-DBM deliveries to facilitate verification/ monitoring; (d) the Office of the AC of S for Logistics (OG4): (i) to continue its close coordination with GA in the timely delivery of ammunitions; and (ii) to request the GA for the immediate delivery of the remaining undelivered ammunitions covered by the fund transfers in CYs 2016 and 2014 in the amount of ₱354,318,720.70 and ₱13,500,000.00, respectively or cause the refund of the long-outstanding unutilized balance of ₱13,500,000.00, pursuant to COA Circular No. 94-013; and (e) Chief Accountants of ASPA and the different FAUs and PAPC in HPA to make representation with PS-DBM to identify those APRs with complete delivery and request for the refund/return of the unspent balances to the Agency for remittance to the Bureau of Treasury and/or identify those APRs without complete delivery and request for the delivery of items yet to be delivered.

5. The accuracy and reliability of the balance of *Fuel, Oil and Lubricants (FOL) Inventory* amounting to ₱940,149,463.70 could not be ascertained due to: (a) unrecorded deliveries/issuances; (b) absence of physical count; (c) non-adherence to the Weighted Average Method of costing inventories; and (d) non/improper maintenance of supplies ledger card and stock card. Moreover, the correctness of the reported fuel consumption could not be ascertained due to inadequate control measures to control and monitor effectively the fuel issuances contrary to the Manual on Audit for Fuel Consumption of Government Motor Vehicles and Section 4 of Presidential Decree No. 1445. (*Observation No. 8*)

We recommended that management direct: (a) ASPA and the corresponding FAUs to (i) immediately record in the books of accounts all unrecorded deliveries as of December 31, 2017 and henceforth, ensure the complete and timely recording of all deliveries and issuances/consumption (ii) maintain SLC and adhere with the required method of costing inventories; and (iii) ensure that recorded fuel issuances/consumption are supported by proper and complete documents; (b) APAO and the different FPAOs to: (i) conduct physical count of FOL inventories; (ii) prepare the corresponding Report on the Physical Count of Inventories (RPCI); and (iii) submit the same to the Accounting Unit for reconciliation with the reported inventory balances in the books and to the Office of the Auditor not later than July 31 and January 31 of each year; and (c) ASPA and APAO to strictly adhere to the pertinent rules and requirements provided under Chapter 8 of the GAM, Volume I as to recording and accounting of inventories.

6. The absence of provision on project timelines in the MOA by and between DND and Petron Corporation on the use of RMC Funds resulted in delayed project implementation of 19 projects programmed for CYs 2015 and 2016. Further, the unreconciled difference between AQM and Petron Corporation records amounting to ₱4,016,169.80 and the unrecorded balance of RMC Fund and equipment delivered to the PA amounting to ₱16,192,258.14 and ₱999,199.00, respectively as of December 31, 2017 renders the balance of RMC Funds unreliable. (*Observation No. 9*)

We recommended that management direct the: (a) G4/AQM to coordinate with Petron Corporation for the immediate delivery of all equipment and/or performance of the unperformed services provided in the program of expenditures for the utilization of RMC Funds covering the years 2015 and 2016; (b) ASPA to record the delivered equipment amounting to ₱999,199.00 and RMC Fund of ₱16,192,258.14; and (c) AQM to coordinate and reconcile their records with Petron on the balance of RMC Fund for all lots; make the necessary adjustment in the POE, if warranted and submit a certification on the reconciled balance and adjusted POE to the Office of the Auditor.

7. The accuracy and reliability of the balance of *Inventory* accounts as of December 31, 2017 in the total amount of ₱7,458,118,908.42 cannot be ascertained due to: a) unrecorded issuances; b) inclusion of undetermined items classified under *Military, Police and Traffic Supplies Inventory*; c) unaccounted discrepancy of ₱2,517,548,635.70 contrary to Section 15, Chapter I of the GAM, Volume I; d) recording of inventories as expenses upon purchase; and (e) failure to submit and maintain property reports and records. Moreover, the lack of common reference for each reported inventory in the accounting and property records resulted in the difficulty of conducting the reconciliation of both records. (*Observation No. 10*)

we reiterated our previous recommendation that management create a task force/Committee, in addition to the Task Force created on November 21, 2017 for PPE, to conduct the reconciliation including the conduct of a wall to wall inventory of all inventory accounts, and to locate/trace records and documents. We also recommended that management require: (a) APAO to prepare the RSMIs and submit the same to ASPA for appropriate recording in the books of accounts; (b) ASPA and APAO to ensure the completeness and accuracy of the information/data provided for each inventory item in the RPCI and subsequently reconcile their records with the records of ASPA; (c) ASPA to identify the details of the inventory amounting to ₱498,354,421.13 and verify if these are still carried in stock, otherwise, request for the submission of the RSMIs to support the recording of issuance, if these were already issued to the end-users; (d) the Inventory Committee in 2nd ID to: (i) prepare and submit the required reports within the prescribed period; (ii) PAO and FAU to maintain SC and SLC respectively to facilitate the reconciliation between the property and accounting records; and (e) ASPA and APAO to agree on a common reference for each inventory item reflected in their respective reports and provide/indicate the warehouse where the items are located/stored to facilitate verification and reconciliation of both records.

8. The accuracy and reliability of the balance of *Property, Plant and Equipment (PPE)* accounts under Regular, BCDA, Trust Funds and Internally Generated Fund (IGF) as of December 31, 2017 in the total amount of ₱107,611,049,073.29 cannot be ascertained due to: (a) discrepancy between the Accounting and Property records, contrary to Section 15, Chapter 2 of the Government Accounting Manual (GAM), Volume I; (b) undocumented land amounting to ₱270,597,823.00; (c) non-

reclassification of PPE accounts with cost below ₱15,000.00 capitalization threshold totaling ₱9,641,761.19; and (d) misstated balance of the Land account due to revaluation, contrary to Philippine Application Guidance (PAG) No. 2 of Philippine Public Sector Accounting Standard (PPSAS) 17. (*Observation No. 12*)

We recommended that Management direct the: (a) Task force/committee created in November 2017 to facilitate the reconciliation of records of PAO, GS and 15th FPAO with ASPA and 15th FAU, respectively and likewise the FPAOs and FAUs in units; (b) 5th ID to work out on the titling of the lots amounting to ₱270,597,823.00 recorded by the 5th ID-AFP; (c) 5th FAU, 9th ID to reclassify the PPE items amounting to ₱9,641,761.19 which were below the ₱15,000.00 capitalization threshold to its proper semi-expendable inventory accounts; and (d) ASPA to make the necessary adjustments on the erroneous recognition of Revaluation Surplus to fairly present the financial statements and henceforth comply with the requirements of PAG No. 2 of PPSAS 17 specifically in the adoption of the cost model valuation of PPE.

9. Property, Plant and Equipment amounting to ₱3,248,749.00 procured thru Small Value Procurement were delivered and accepted during the year but not recorded by ASPA or 15th FPAO in their respective books of accounts, contrary to Section 20, Chapter 10 of GAM, Volume I. (*Observation No. 13*)

We recommended that Management direct the 15th FPAO to require the UPO of the concerned units to submit the documents pertaining to the procured PPEs to facilitate their recording in the Property Card and subsequently submit said documents together with the PAR to ASPA as basis for its recording in the books of accounts.

10. Completed Projects in HPA and MID/TRADOC amounting to ₱340,117,113.27 recorded under *Construction in Progress – Building and Other Structures* account under the BCDA Fund and Regular Fund were not reclassified to their proper PPE accounts, contrary to Paragraph g, Section 8 of GAM. Moreover, 15 projects amounting to ₱26,049,807.90 taken up under *Construction in Progress* account were not found in the records of OACE, thereby casting doubt on the reliability of the recorded CIP transactions. (*Observation No. 14*)

We recommended that Management direct: (a) concerned EBde to submit to ASPA the documents pertaining to the completed projects amounting to ₱256,165,671.77 to effect its reclassification to the appropriate PPE accounts; Henceforth ensure that records of all projects are maintained for file and monitoring purposes; (b) MID/TRADOC to secure from the AFPNDSC the Physical Accomplishment Report and Report of Completion of the KBP projects amounting to ₱84,251,441.50 as basis in recording; and (c) ASPA to coordinate and reconcile their records with the OACE for proper monitoring of project status and the immediate reclassification to the appropriate PPE accounts of all completed projects.

11. Unserviceable PPEs totaling ₱210,185,400.72 were not dropped from the books as required by Section 39 and 40, Chapter 10 of GAM, Volume I, thus resulting in the misstatements of the PPE and other affected accounts. (*Observation No. 15*)

We recommended that Management direct the PAO, GS/FPAO to cause the preparation and submission of IIRUP to ASPA/FAU covering the unserviceable property amounting to ₱210,185,400.72 to provide basis in dropping of unserviceable properties in the books of accounts.

12. Other structures constructed between the years 1995 and 1998 amounting to ₱79,230,747.62 already destroyed by fire in 1998 were not derecognized in the books as at year-end contrary to Sec. 41, Chapter 10 of GAM, Volume I. Likewise, lost properties amounting to ₱719,141.60 in 3rd ID were not also derecognized in the books despite submission of Notice of Loss. (*Observation No. 16*)

We recommended that Management direct: (a) (i) Accountable Officers of the 3rd ID to prepare and submit to the Chief Accountant the corrected Report of Lost, Stolen, Damaged or Destroyed Property; (ii) Accountant to derecognize the lost property from the books of accounts and to set-up the receivable account; and (iii) Chief, Army Property Accountability Office to exclude the lost property from the Report on Physical Count of Property, Plant and Equipment as well as in the respective Property Card; and (b) ASPA to coordinate with 14th FAU of 51st EBde for the production of documents pertaining to the PPE destroyed by fire and to instruct the accountable officers therein to submit the RLSDDP together with the Notice of Loss to ASPA to properly derecognize said lost assets in books of accounts of HPA.

13. The accuracy and reliability of the Motor Vehicles account under Regular and BCDA Funds as of December 31, 2017 in the total amount of ₱2,461,627,674.16 is doubtful due to the discrepancy of ₱5,810,283.00 between the accounting and property records. Likewise, inconsistencies were noted in the recording/maintenance of motor vehicles which also affects the reliability of the account balance as reported in the FS. (*Observation No. 17*)

We recommended that management instruct the: (a) 15th FAU and 15th FPAO to reconcile their records and make the necessary adjustments in their respective records duly supported with proper and valid supporting documents; (b) PAO, GS to prepare and submit to the accounting service the IIRUP of the unserviceable vehicles amounting to ₱6,128,283.00 for proper recording in the books of accounts of the HPA. (c) AC of S for Logistics, G4 of 5th ID to determine the unit cost of the 22 vehicles so that the same will be recorded in the books; (d) MID/TRADOC to (i) coordinate with HPA and secure the necessary documents/information on the transferred 114 units APCs for proper recording in the books, (ii) follow-up the request for copies of OR/CR of the 48 military trucks from HPA for purposes of establishing ownership and to facilitate their renewal upon expiry of corresponding registration, and (iii) maintain a Masterlist of all vehicles to facilitate monitoring of registration renewal including its status and condition; and (e) require the OG4 in

51st EBde to gather/file all the ORs/CRs of all motor vehicles assigned/used by the different offices/unit for record purposes.

14. The balance of DLC account amounting to ₱1,815,997,687.56 is misstated by ₱227,178,714.08 due to the: (a) inclusion of completed projects/delivered goods and/or services; (b) unrecorded residual balances of LCs and other adjustments; (c) inclusion of the improperly classified bank debit and credit transactions for UCPB Account; and (d) non-return/refund to the Agency of the LC balances for terminated contracts. (*Observation No. 19*)

We recommended that Management direct the ASPA to: (a) account for all negotiations made against LCs for fully and partially completed projects with all the supporting documents and effect the immediate recognition of all relevant transactions affecting the DLC account in the books of accounts; (b) ensure the immediate recognition of the unrecorded residual LC balances and other adjustments in the books of accounts; (c) require the Servicing Banks for regular submission of the Application Status of Payment to account for the discrepancies between the books and bank balances; and (d) reclassify the recorded amount of ₱23,439,200.00 from DLC account to its proper cash account to reflect correct balances as at year-end.

15. The balance of the *Due to National Government Agencies* account of ₱758,826,412.53 is unreliable in view of: (a) unaccounted discrepancy of ₱551,973,860.30 between the records of the HPA and four NGAs, (b) delayed/non-submission of liquidating documents by the implementing units and unrecorded liquidations by the HPA and unreverted residual amount to the source agency, (c) non-derecognition of liability of ₱3,850,000.00 under the Kawal Kalinga Fund, and (d) unremitted interest income as at year-end, thereby affecting the fair presentation of the financial statements, contrary to the requirements of Section 15, Chapter I of the Government Accounting Manual (GAM), Volume I. (*Observation No. 21*)

We recommended that management direct the ASPA to: (a) reconcile its records with concerned NGAs, as well as with the other Field Accounting Units (FAU); to properly account the unaccounted discrepancy and duly supported of all pertinent documents in order to record the liquidations submitted by the different FAUs amounting to ₱4,800,150.00 and prepare adjustments to record other valid reconciling items in the books to bring the records into agreement; (b) require the implementing units with unliquidated balances of fund transfers of ₱41,437,398.48 to submit their liquidation reports immediately and refund the excess amount of ₱7,224.85 to the source agency (DND), for proper accounting, recording in the books of accounts and reporting; (c) record corollary entry to derecognize the liability of the HPA under Kawal Kalinga Fund recorded under *Due to NGAs* account in the amount of ₱3,850,000.00 due to remittance of the unutilized amount to the BTr; and (d) remit the interest income of ₱1,183,315.75 to the BTr.

E. OTHER SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

1. Management failed to demand the refund of fund transferred to PITC consisting of ₱379,103,139.48 aged three but less than five years and dormant balance of ₱204,397,153.20. Moreover, despite the huge balance it still transferred funds amounting to ₱4,088,359,212.79 during the year. (*Observation No. 5*)

We recommended that Management: (a) demand the immediate refund of the long-outstanding excess/unutilized balances and dormant funds from CY 2007 to CY 2011 in the total amount of ₱583,500,292.68 for HPA and ₱604,361.24 for 51st EBde PA or in the total amount of ₱584,104,653.92 pursuant to COA Circular No. 94-013, and for subsequent remittance to the BTr; and (b) record and subsequently remit all refunds and collections, pertaining to interest income and penalty fees, from PITC to the Bureau of the Treasury.

2. Slow rate of deliveries were noted equivalent to only 40.30 per cent rate of delivery amounting to ₱3,633,401,267.03 out of the fund transfers made from 2007 to 2017 amounting to ₱9,016,845,659.92 for the outsourcing of the various requirements of the Agency from PITC, which may have deprived the intended users of the timely use of the requested items. (*Observation No. 6*)

We recommended that Management strictly monitor the fund transfers to and deliveries from PITC and ensure that they are utilized/liquidated in a timely manner. We further recommended that Management cease from transferring funds to PITC to avoid the lapsing of NCAs.

3. The probability of collection of the various receivable accounts from officers and employees in the total amount of ₱9,453,923.77 in three PA units is remote due to its dormancy and the absence of available records and documents. No request for Authority to Write-off was initiated by Management as provided in COA Circular 2016-005 dated December 19, 2016. (*Observation No. 7*)

We reiterated our recommendation that Management re-assess the collectability of the accounts, exert all efforts to locate the documents and avail of the legal remedies to possibly collect/recover these receivables. We also recommended that if collectability of the accounts is highly remote, Management should file a Request for Authority to Write-off the balances following the procedures and requirements provided in COA Circular No. 2016-005.

4. Ammunitions aged more than 25 years amounting to ₱2,189,094.04 remained in stock as at year-end since the firearms to which the ammunitions were supposed to be used were already phased-out and/or no longer responsive to the operational requirements of PA. Likewise, slow moving/ unissued inventories amounting to ₱134,239,196.85 remained idle for more than one year, thus, may result to wastage of government funds due to obsolescence. (*Observation No. 11*)

We recommended that management require: (a) OACOCS to furnish a copy of the result of the inspection of the inventories amounting to ₱2,189,094.04 to G4 which shall serve as basis for its proper disposition; and (b) Supply Battalion, ASCOM to communicate with the OG4 the slow moving inventories and request the same to be issued to end-users.

5. Poor monitoring of motor vehicle registration resulted in the incurrence of penalties of ₱1,056,471.85 for late registration of 773 vehicles while 435 vehicles were not registered during the year. (*Observation No. 18*)

We recommended that management require the: (a) OG4 to issue a memorandum/directive reminding all concerned units to strictly comply with the policy on the timely registration of PA vehicles; (b) concerned officials/personnel of the five units responsible of registration to refund the surcharges/penalties incurred due to late registration which were charged to government funds.

6. Long-outstanding balance of the *Accounts Payable* account ranging from two to 10 years amounting to ₱105,251,694.54 remained unsettled and/or not reverted to the unappropriated surplus of the general fund contrary to the requirements of Section 98 of P.D. 1445 and DBM/COA Joint Circular No. 99-6. (*Observation No. 20*)

We recommended that Management direct the Chief, ASPA and Chief, 14th FAU to: (a) determine the accuracy and propriety of the balances of the Accounts Payable account as of December 31, 2017; and (b) revert all balances that have no valid claimants and/or those that have been outstanding for two years or more to the Cumulative Results of Operation Unappropriated (CROU), in compliance with the provisions of Section 98 of P.D. 1445 and DBM/COA Joint Circular No. 99-6 and to fairly present the financial statements as at year-end.

7. The amount of ₱31,381,780.48 intended for payment of Reenlistment Clothing Allowance (RCA) and Salaries and Wages of military personnel lacks appropriate supporting documents to establish rightful claims. The balance consists mostly of prior year's accounts, remained unpaid/unclaimed as of December 31, 2017. (*Observation No. 22*)

We recommended that Management direct: (a) FCPA to coordinate with ASPA and account the balance of ₱14,323,284.19 in the RCA account which should be supported with list/proper documentation. Thereafter, FCPA should prepare/maintain a list of military personnel who were not paid of their RCA and salaries. The prepared list should be furnished to ASPA and to the Office of the Auditor for verification and monitoring purposes; (b) FCPA to locate the military personnel with unclaimed salaries and notify them in writing of their claims; (c) FCPA to cause the immediate payment of RCA and salaries to the identified valid claimants and remit to the Bureau of Treasury the remaining balance, if any;

and (d) in cases of no valid claimant of these balances, immediately remit the same to the BTr.

8. Fund transfers amounting to ₱2,543,553.61 remained unsettled/unliquidated despite the lapse of 10 years and more, hence considered as dormant fund and should be reverted to the National Treasury as mandated in Executive Order No. 431 and the General Appropriations Act of CY 2017. (*Observation No. 23*)

We recommended that Management direct the ASPA to immediately remit to the BTr the amount of ₱2,543,553.61 pertaining to the dormant fund transfers.

9. The financial statements for CY 2016 was not restated to reflect the effects of the prior period errors and other adjustments of ₱6,061,809,575.24 and the required disclosures were not made/presented in the Notes to Financial Statements contrary to paragraphs 47 and 54 of the Philippine Public Sector Standards; hence, affecting the reliability of the financial statements. (*Observation No. 25*)

We recommend that Management direct the Acting Chief, ASPA henceforth, make the necessary restatement of the financial statements and adequately disclose the effects of the prior period errors in the Notes to Financial Statements pursuant to the pertinent provisions of PPSAS No. 3.

10. Due to the delayed conduct of procurement activities, only three projects were completed during the year, 22 projects awaits delivery, five projects were at various stages of procurement, funds for four projects were transferred to PITC and 10 projects remained unimplemented. (*Observation No. 26*)

We recommended that Management direct the: (a) PAPC, as the procurement arm of the PA, and OG4 to closely monitor and fast track the delivery/completion of all the projects awaiting delivery/completion; and (b) OG4 to consider adopting the provisions of Section 7.6 of the Revised IRR of RA 9184 to facilitate the immediate implementation of procurement of Goods, Infrastructure Projects or Consulting Services which is necessary in the timely delivery/completion of the projects and programs of the Agency.

11. For CY 2017, the Philippine Army has recorded an absorptive capacity of 91.91 percent and 99.93 percent on allotment over appropriation and obligation over allotment, respectively. Of the total allotment of ₱63,867,107,616.00, ₱46,375,695.31 or 0.072 percent was unutilized in CY 2017. However, the budgeted revenue from Trust Receipts, Trust Liabilities and BCDA Fund posted a low utilization rate of 9.44 percent, 4.32 percent and 4.93 percent, respectively, which could be attributed to poor planning, coordination and monitoring. (*Observation No. 27*)

We recommended that Management: (a) continue its commendable effort in the attainment of a high absorptive capacity in the Agency's allotment over

appropriations and expenditures over allotment as observed in CY 2017 with absorption capacity of 99.91 percent and 99.53 percent, respectively; and (b) ensure the attainment/accomplishment of duly approved programs, projects and activities of Trust Receipts, Trust Liabilities and BCDA Fund thru proper planning and an effective system of coordination and monitoring in order to meet the desired purpose/s or objective/s.

12. Procurement process from the date of Pre-Procurement Conference to the date of issuance of Notice to Proceed (NTP) is beyond the 136 days limit set forth in the 2016 Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184. The period was further lengthened with the delays in the deliveries and the conduct of inspection and/or issuance of the Certificate of Acceptance with an average period of 248 days. (*Observation No. 28*)

We recommended that Management: In HPA (a) evaluate the existing procurement policies/processes; address/remedy the cause/s of the delay particularly in the inspection and acceptance of the deliveries and strictly adhere to the procurement periods provided in Annex C of the Revised IRR of RA 9184; and (b) revisit the existing procedures and controls from receipt of delivery to acceptance, and if necessary, craft a policy providing timelines and corresponding sanctions for non-compliance. In 51st EBde, PA make representation with the concerned officials responsible in the different stages of the procurement process to submit explanation/justification for the lengthy and prolonged procurement activities

13. The goal of the Philippine Army to have 10 buildings in TRADOC to accommodate the enlisted personnel, students and officers by end of June 2013 by allocating the amount of ₱325,469,869.00 and ₱25,000,000.00 for medical dispensary, was not attained. (*Observation No. 29*)

We recommended that management: (a) revisit the existing policies and procedures in the procurement and in the implementation of infrastructure projects to address, prevent and/or minimize the noted deficiencies; (b) conduct an inquiry to determine whether concerned personnel may be held liable for the noted deficiencies that may have resulted in the lost and/or wastages of the Agency's resources, if any; and (c) consider the immediate completion of the projects taking into account the need as well as the safety of the intended users to ensure that government resources are managed economically and efficiently.

14. The Gender and Development Plan and Budget (GPB) of the Philippine Army for CY 2017 was not endorsed by the Philippine Commission for Women (PCW) to DBM within the prescribed timeline contrary to the requirements of Section 8.5 of PCW-NEDA-DBM Joint Circular No. 2012-01. Moreover, the GAD budget of ₱156,986,231,246.94 is defective and unrealistic having been over and above by ₱99,551,976,246.96 of the total appropriations of ₱57,434,255,000.00 for CY 2017. Likewise, of the 67 planned activities, only 45 activities and 13 attributed programs were accomplished. (*Observation No. 31*)

We recommended that management direct OAGAD to: (a) ensure timely submission of the GAD Plan and Budget to the PCW for its endorsement to the DBM; (b) ensure compliance with the required GAD budget of at least five percent of the agency budget for the year; (c) effectively plan and prepare the GPB by ensuring that there is a close coordination with concerned stakeholders in identifying significant GAD related activities that would address gender related issues within the organization; and (d) consider in the preparation of the GPB those GAD activities found relevant and responsive to the mandate of the Agency.

15. The year-end balance of the *Due to GSIS* account at HPA and post units of ₱12,087,858.34 is misstated in view of the unadjusted remittances of GSIS-PS contributions and loan payments for the months of April to October 2017 amounting to ₱372,845.07 recorded as debit to the *Due to GSIS* account but were not actually remitted during the year. Moreover, delayed remittances of premium contributions were noted resulting in the incurrence of penalties/interests amounting to ₱171,092.98 and ₱2,667,683.40 for Civilian Employees and uniformed personnel respectively; thus the employee's Periods with Premium Payments (PPP) and loanable amount and their entitlement and availment of EC benefits will be affected. (*Observation No. 32*)

We recommended that Management require: (a) the Acting Chief Accountant of ASPA to prepare an adjusting entry to correct the noted errors in the *Due to GSIS* and other affected accounts and henceforth exercise due care in the preparation of journal entries covering a particular transaction in order to prevent errors that affect the fair presentation of the FS; and (b) the Remittance Section of FCPA to ensure timely remittance of all contributions and loan payments to prevent the incurrence of penalties due to delayed remittances.

16. Audit suspensions and disallowances in the amount of ₱449,773,633.06 and ₱89,601,710.44, respectively, remained unsettled as at year end, contrary to Sections 7.1 and 10.4 of the 2009 Revised Rules and Regulations on the Settlement of Accounts (RRSA), as prescribed under COA Circular No. 2009-006 dated September 15, 2009. (*Observation No. 36*)

We recommended that Management strictly enforce the settlement of all audit suspensions and disallowances pursuant to Section 7.1 of RRSA.

F. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of the 109 recommendations embodied in the Consolidated Annual Audit Report for CY 2016, and prior years, 81 were fully implemented, 28 were partially implemented and none were not implemented. The results of validation of the actions taken in prior year's recommendations are presented in Part III of this report.