

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. 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 includes (i) effective and efficient Army forces; and (ii) professional and capable Army loved by the people. Its thrusts are the following:

- a. Capability to uphold the sovereignty and territorial integrity of the State assured;
- b. Internal stability promoted and sustained;
- c. Highest standard of capability and preparedness against calamities and emergencies addressed; and
- d. Security sector reforms implemented.

The PA has the following 15 field units in different parts of the country, each of which is served by a Field Accounting Unit (FAU):

	PA Unit	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	(4ID) Camp Edilberto Evangelista, Patag, Cagayan de Oro City	10 th 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, Awang, Datu Odin Sinsuat, Maguindanao	12 th FAU
7	7 th Infantry (Kaugnay) Division	Fort Magsaysay, Palayan City, Nueva Ecija	3 rd FAU

	PA Unit	Location	Servicing FAU
	AAR, SOCOM		
8	8 th Infantry (Storm Trooper) Division	Camp Lukban, Maulong, Catbalogan City, Samar	8 th FAU
9	9 th Infantry (Spear) Division	Camp Weene Martillana, Pili, Camarines Sur	5 th FAU
10	10 th Infantry (Agila) Division	Camp General Manuel T. Yan, Brgy. Tuboran, Mawab, Compostela Valley	11 th FAU
11	Mechanized Infantry Division & TRADOC	Camp O'Donnell, Capas, Tarlac	1 st FAU
12	51 st Engineer Brigade	Camp Rigoberto J. Atienza, Libis, Quezon City	14 th FAU
13	52 nd Engineer Brigade	(52EBde) Camp Colonel Oscar F. Natividad, Manolo Fortich, Bukidnon	10 th FAU
14	53 rd Engineer Brigade	Camp Lapu-lapu, Cebu City	7 th FAU
15	54 th Engineer Brigade	Camp Gen Arturo T Enrile, Malagutay, Zamboanga City	16 th FAU

Under the present organizational set up, the PA is headed by Commanding General Lieutenant General Macairog S. Alberto. He assumed office on 15 October 2018 after the retirement from service of Lieutenant General Rolando Joselito D. Bautista. He is assisted by Vice Commander, MGen Rizaldo B. Limoso¹ and Chief of Staff, MGen Jesus B. Sarsagat² and 16 equivalent technical staff.

For CY 2018, the Command has a total strength of 97,774 consisting of 7,027 officers, 89,563 enlisted personnel, 207 provisional 2LT and 977 candidate soldiers. Its work force is supplemented by 1,372 civilian employees.

MAJOR ACCOMPLISHMENTS

In 2018, the Command accomplished the following guided by the AFP Development Support and Security Plan “Kapayapaan” 2017-2022 and the PA Support Plan to FRAG-O 02 to AFP OD 01-201:³

1. *Territorial Defense, Security and Stability*

Internal security operations were sustained for the whole year with a total of 293,022 combat operations conducted against the CPP-NPA, resulting in 628 engagements. A total of 260,701 combat operations were conducted against the

¹ Assumed office on 15 February 2019

² Assumed office on 15 December 2018

³ Philippine Army Annual Accomplishment Report CY 2018

Abu Sayyaf Group (ASG), Lawless Terrorist Groups (LTGs), and Lawless Elements (LLEs), resulting to 394 engagements. The government recovered a total of 5,733 firearms in these combat operations and, overall, resulted in 243 enemy fatalities, 67 wounded and 5,285 who surrendered, were captured or apprehended.

In line with the Commander-in-Chief's thrust of defeating Communist Terrorists and curbing the rise of violent extremism, the Command activated 10 new Infantry Battalions. Moreover, to address the threat posed by terrorist groups particularly in the province of Sulu, 11ID (Provisional) was formally activated on 17 December 2018 at its Headquarters in Kuta Heneral Teodulfo Bautista (KHTB). Furthermore, to provide the Army with a deployable contingency force during emergency situations, the Command formally activated the 1st Brigade Combat Team (BCT) last 15 December 2018 at Fort Magsaysay, Nueva Ecija.

On doctrine development, the Command facilitated the publication and distribution of handbooks and manuals to capacitate the units in conducting Internal Peace And Security Operations (IPSO). This includes *Marawi and Beyond: The JTF Marawi* book series composed of 28 handbooks and the Comparative Analysis of the Military Campaigns of Fallujah, Mosul, and Marawi City. Further, the Command developed manuals and reference materials including 16 doctrine manuals that were promulgated. Several other documentations were crafted to include: Company Commanders' Handbook; A Chronicle of Policy Initiatives S-2018; Army Human Rights Handbook; and, Cybersecurity Awareness Guide among others. In support to the directives issued by the GHQ, the Philippine Army crafted and issued five (5) Support Plans on how the Command will support and sustain the AFP operations in different situations.

2. ***Humanitarian Assistance and Disaster Response (HADR)***

HADR trainings, particularly Disaster Rescue and Response Operations (DRRO) training was included in the Command directed in-service trainings in the Annual Training Program. The Command also provided ₱3M to support operations during the onslaught of natural disasters and another ₱2M for the training of Infantry Divisions' HADR Company. Additionally, ₱46M worth of various Disaster Response Operations (DRO) specialized and medical equipment were issued to Philippine Army Major Units (PAMUs) through the Department of National Defense- Quick Response Fund (DND-QRF).

3. ***International Defense and Security Engagements (IDSE)***

To enable purposive and progressive relations with allied nations and facilitate knowledge exchange and inter-state interactions, a total of 163 IDSE activities were conducted. The Philippine Army joined various activities with foreign counterparts such as: Exchange Visits, Planning Conferences, Subject Matter

Experts' Exchange, Symposia, Exercises and Working Group Meetings. In addition, the Philippine Army availed of 77 courses from allied countries.

4. ***Force-Level Command and Control, Training and Support***

The Command pursued numerous lines of action to provide force-level support, primarily through the conduct of series of workshops, seminars, and trainings. It initiated the conduct of Trauma Risk Management Training (TRIM) that aims to help the participants identify early signs and symptoms of Combat Stress and provide proactive measures to prevent Post Traumatic Stress Disorder which can greatly help their units. Further, in giving importance and due recognition to the indispensable services of the CAFGU Active Auxiliary (CAA) as force multipliers, the PA facilitated the 110-percent increase in CAFGU Active Auxiliary Mutual Benefit Association, Inc. (CAA MBAI) insurance benefits and initiated the granting of financial support to the CAAs-I service through Executive Order No. 69. This amounted to ₱7,000.00 per CAA in the last two months of 2018.

A significant breakthrough was achieved by the Philippine Army in being globally recognized for strategy management execution and inducted to the Palladium Balanced Scorecard Hall of Fame in London. Furthermore, in nurturing the high trust and respect of the people to the Philippine Army, the Command's initiatives to enhance its systems and processes to achieve a modern and professional army significantly contributed to the good perception of the Filipinos towards the organization. The Philippine Army maintained an excellent trust rating of +79 and satisfaction rating of +75 based on the nationwide survey conducted by social weather station for year-end 2018.

B. OPERATIONAL HIGHLIGHTS

The PA's accomplishment per Major Final Output in CY 2018 are shown in the following table vis-à-vis the target:

Major Final Output	Target	Accomplishment	Percentage of Accomplishment
1. Number of tactical and ready reserve units maintained			
a. Tactical Battalions	191	205	107
b. Ready Reserve Battalions	82	82	100
2. Percentage of operational readiness of tactical and ready reserve units			
a. Tactical Battalions	82%	82%	100
b. Ready Reserve Battalions	65%	63%	97
3. Average percentage of effective strength of tactical battalions that can be mobilized within one hour as dictated by higher authorities	90%	90%	100

C. FINANCIAL HIGHLIGHTS

The summary of appropriation, comparative sources and uses of funds, financial position, and financial performance of the Philippine Army for CYs 2018 and 2017 are presented below:

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

Fund Source	Amount (in Thousands)			
	Appropriations	Allotments	Obligations Incurred	Balances
Regular Fund	₱63,998,132	₱ 63,998,132	₱62,158,194	₱ 1,839,938
Special Purpose Fund	24,702,074	24,702,074	24,165,051	537,023
Automatic Appropriation	578,370	578,370	578,370	-
BCDA Fund		183,629	4,038	179,591
Grand Total	₱ 89,278,576	₱ 89,462,205	₱ 86,905,653	₱ 2,556,552

- b. Comparative Financial Position

Particulars	Amount (in Thousands)	
	2018	2017 As Restated
Financial Position		
Assets	₱ 110,675,218	₱105,539,123
Liabilities	4,113,341	3,668,452
Equity	₱ 106,561,877	101,870,671

- c. Comparative Financial Performance

Particulars	Amount (in Thousands)	
	2018	2017 As Restated
Financial Performance		
Total Revenue	₱ 119,380	₱ 92,026
Less: Current Operating Expenses		
Personnel Services	72,251,137	48,137,676
Maintenance & Other Operating Expenses	6,263,282	6,281,268
Financial Expenses		2
Non-Cash Expenses	1,365,036	1,376,855

Particulars	Amount (in Thousands)	
	2018	2017 As Restated
Total Current Operating Expenses	₱ 79,879,455	₱ 55,795,801
Surplus/(Deficit) from Current Operations	(79,760,075)	(55,703,775)
Net Financial Assistance/Subsidy	₱ 85,320,150	₱ 59,972,045
Other Non-Operating Income	20,743	21,688
Gains	103	4,834
Losses	(509)	-
Surplus for the period	₱ 5,580,412	₱ 4,294,792

D. SCOPE OF AUDIT

The audit covered the financial accounts and operation of the PA for CY 2018. 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.

The audit of the 2018 accounts and operations of the 15 field units of the PA was performed by the Audit Teams and Audit Groups 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. These 15 field units accounted for ₱22,897,763,436.54 or 21 percent of the ₱110,675,218,167.32 total assets as of 31 December 2018 of the PA and 18 percent of its ₱79,879,455,084.45 total current operating expenses for the year then.

As discussed in *Observation No. 1* of this report, Headquarters PA (HPA) and four of its field units failed to submit the financial transactions involving ₱2,587,345,689.09, thereby limiting the extent of audit.

In the case of Confidential and Intelligence Funds, the audit 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, Department of Budget and Management (DBM), Department Interior and Local Government (DILG), Governance Commission for GOCCs and Department of National Defense (DND).

The audit of the assets transferred by the HPA to its PA field units, National Government Agencies (NGAs) or Government-owned and Controlled Corporations (GOCCs) was limited basically to: (i) ensuring that the assets transferred is for a project of the PA with appropriate allotment and covered by a Memorandum of Agreement (MOA) or similar document and that it is properly recorded; (ii) seeing that reports of

disbursements and disallowances are recognized in the PA books of accounts; and (iii) reconciling the records of transferred funds of the PA, on one hand, and recipient or implementing PA field units, NGAs and GOCCs, upon the other hand (pursuant to Section 7 of COA Circular No. 94-013 dated 13 December 1994). The audit of the disbursement/utilization of the transferred assets was conducted by the auditors of the recipient or implementing PA field units, NGAs and GOCCs.

E. 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 2018 because of (i) accounting errors amounting to ₱3,516,134,737.75 representing 4.4 percent of its total current operating expenses of ₱79,879,455,084.45 (**Annex B**); (ii) accounting deficiencies (**Annex B**); and (iii) non-disclosure of information in the Notes to Financial Statements required in the Philippine Public Sector Accounting Standards (PPSASs) as discussed in Observation No. 4 of this report.

F. SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

1. Headquarters PA (HPA) and four of its field units failed to submit the financial documents for transactions involving ₱2,587,345,689.09, thereby limiting the extent of audit and forfeiting the benefit of, among others, timely detecting errors and deficiencies; identifying areas for improvement; and having input to assessments of accountability and decisions that need to be made. (*Observation No. 1*)

For this we recommended that Management direct the responsible officers and staff of the HPA and four field units to submit without further delay the financial records and information specified herein and effectively resolve the issue on the lack of personnel in ASPA.

2. Accounting errors in recording transactions amounting to ₱3,516,134,737.75 resulted in the misstatement of affected accounts and weighed on the fair presentation of the PA's Consolidated Financial Statements (FS), as discussed in detail in *Observation No. 2*.

For this we reinforced our prior years' recommendation by urging Management to direct the concerned accountants of ASPA and Field Accounting Units to correct immediately the accounting errors discussed herein.

3. Various accounting deficiencies in recording and reporting financial transactions amounting to ₱4,952,590,419.72 undermined the quality of information presented in the PA's Consolidated FS as presented in detail in *Observation No. 3*.

Accordingly, we reinforced our prior years' recommendation by recommending that Management instruct the concerned officers and staff of the HPA, Infantry

Divisions and Engineer Brigades to resolve the accounting deficiencies listed in detail in Annex B. Specifically: (a) for the long outstanding cash advances, settle them without further delay and ensure that the recognition of the attendant assets and expenses are made in the proper period; (b) in the case of the unreconciled difference between the property and accounting records, and between the records of accounts of PA and Procurement Service-Department of Budget and Management (PS-DBM) or Philippine International Trading Corporation (PITC), account for and settle them fully; (c) for the undocumented bank credit and debit memo, account for them fully and recognize them in the books of accounts by the end of 2019; (d) in the case of disbursements, account balances and financial transactions lacking the prescribed documentation, prove their validity/regularity by submitting such documentation; (e) for the abnormal FOL consumption recognized in the accounts, account for and recognize the actual level of consumption; (f) in the case of PPE without allowance for depreciation, provide such depreciation in accordance with the prescribed method; and (g) for the 895 pieces of firearms turned-in to FSSU, ASCOM and PAO, GS, account for them correctly in both the books of accounts of ASPA and 3rd ID.

4. The PA had not disclosed in the Notes to FS the required information that will enable users of its FS to evaluate the significance of the assets, liabilities and equities to its financial position and performance and the nature and extent of risks arising from them. This weighed on the understandability of the FS. (*Observation No. 4*).

In order to meet the standard of understandability and enable users of its FS to evaluate the significance of the assets, liabilities and equities to its financial position and performance and the nature and extent of risks arising from them, we recommended that Management direct ASPA to disclose in the Notes to FS the following: (a) nature and substance of the changes arising from the restatement of accounts presented in the 2017 FS; and (b) information on receivables, inventories and PPE listed in Table 8.

5. Considerable delay from 25 to 61 calendar days in procurement actions for mission-essential goods and base development projects poses risk to the PA operations in achieving its core purpose. (*Observation No. 5*)

We recommended that Management direct the Commanding Officer of the PAPC to: (a) address the delay in procurement actions and in the process come up with a catch-up plan reflecting the prevailing condition in 2018; (b) in the case of procurement through PITC and from GA: (i) work closely with them to implement measures to hasten considerably the delivery of the outstanding requisitioned goods, equipment, etc.; and (ii) evaluate and determine the extent by which PA can effectively source operational requirements from them and ensure that such extent is factored in future procurement actions.

6. The PA had not observed certain provisions of laws, rules and regulations on financial operations, thus, bypassing the intended control benefits to its financial and accounting operation. (*Observation No. 6*)

In order to strengthen control over the PA's financial and accounting operation, we recommended that Management intensify the monitoring of compliance to the accounting and auditing laws, rules and regulation specified in Table 11 and ensure faithful observance thereof.

7. Cash donations of ₱47,643,153.00 intended as financial assistance to Wounded-in-Action (WIA) PA personnel remained unutilized as of 31 December 2018. Moreover, the PA exceeded by ₱9,980,000.00 the final assistance granted to 118 certified KIA beneficiaries contrary to GHQ Letter Directive No. 30 dated 31 July 2017. (*Observation No. 15.3*)

We recommended that Management formulate specific guidelines for the receipt, utilization and liquidation of the donated Marawi Fund and, in accordance with such guidelines, utilize it fully for the timely benefit of the WIA PA personnel and require the then Director, FCPA to justify the overpayment to KIA beneficiaries.

8. The PA had not enforced the settlement of audit suspensions and disallowances in the amount of ₱176,364,854.68 and ₱122,170,913.29, respectively which is not in keeping with the rules and regulations on the settlement of accounts. (*Observation No. 16*)

We recommended that Management strictly enforce prompt settlement of the suspensions and disallowances.

Other significant audit observations are also discussed in detail under Part II of this report.

The foregoing observations and recommendations were discussed with concerned management officials in an exit conference conducted on 22 May 2019. Management's views and reactions were incorporated in this report, where appropriate.

G. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 127 audit recommendations contained in the CY 2017 Consolidated Annual Audit Report, 61 were implemented and 66 were not implemented. Details are shown in Part III of this report.