

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 17 field units in different parts of the country, each of which is served by a Field Accounting Unit (FAU):

Nr	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	52 nd Engineer Brigade	(52EBde) Camp Colonel Oscar F. Natividad, Manolo Fortich, Bukidnon	
6	5 th Infantry (Star) Division	Camp Melchor F. Dela Cruz, Upi, Gamu, Isabela	2 nd FAU
7	6 th Infantry (Kampilan) Division	Camp BGen Siongco, Awang, Datu Odin Sinsuat, Maguindanao	12 th FAU
8	7 th Infantry (Kaugnay) Division AAR, SOCOM	Fort Magsaysay, Palayan City, Nueva Ecija	3 rd FAU

Nr	PA Unit	Location	Servicing FAU
9	8 th Infantry (Storm Trooper) Division	Camp Lukban, Maulong, Catbalogan City, Samar	8 th FAU
10	9 th Infantry (Spear) Division	Camp Weene Martillana, Pili, Camarines Sur	5 th FAU
11	10 th Infantry (Agila) Division	Camp General Manuel T. Yan, Brgy. Tuboran, Mawab, Davao de Oro	11 th FAU
12	11 th Infantry (Alakdan) Division	Busbus, Jolo, Sulu	9 th FAU
13	Mechanized Infantry Division & TRADOC	Camp O'Donnell, Capas, Tarlac	1 st FAU
14	51 st Engineer Brigade	Camp Rigoberto J. Atienza, Libis, Quezon City	14 th FAU
15	53 rd Engineer Brigade	Camp Lapu-lapu, Cebu City	7 th FAU
16	54 th Engineer Brigade	Camp Gen Arturo T Enrile, Malagutay, Zamboanga City	16 th FAU
17	55 th Engineer Brigade	Balo-i, Lanao del Norte	

Under the present organizational set up, the PA is headed by Lieutenant General Gilbert I Gapay, Commanding General. He assumed office on 05 December 2019 after the retirement from service of Lieutenant General Macairog S Alberto. He is assisted by Vice Commander, MGen Reynaldo M Aquino¹ and Chief of Staff, BGen Rowen S Tolentino² and 16 equivalent technical staff.

For CY 2019, the Command has a total strength of 102,643 consisting of 7,289 officers and 93,369 enlisted personnel. Its work force is supplemented by 1,349 regular civilian employees, 34 co-terminus with the incumbent, 381 job orders and 221 retainers.

MAJOR ACCOMPLISHMENTS

The Philippine Army remains committed in performing its task in its journey to be a world-class Army. For 2019, the Command constantly realized significant achievements in operations despite the challenges of the changing operational environment. The Army has enhanced capabilities through purposive organizational developments and consistently provided support to ground units placed under the operational control of the Unified Commands. These accomplishments are discernible in the **Develop, Organize, Train, Equip, Support and Sustain Framework**, and the **Army Transformation Roadmap**.

¹ Assumed office on 20 June 2019

² Assumed office on 20 December 2019

Develop

In sustaining the PA's Capability Development, the Command crafted the PA Medium-Term Capability Development Plan 2020-2025 that will serve as a master plan for the Army on how it will program the development of its capabilities over the next six years to achieve its vision of becoming a world-class modern Army by 2028, which is anchored on the PA Operating Concept and the Land Power Maneuver Concept. In line with this, the publication of the PA Strategic Basing Plan 2028 Manual serves as a master basing plan aligned with the PA future Force Structure and Capability Development Plan. This plan rationalizes the location of PA future bases to address current and future threats. The proposed 2nd List of the 2nd Horizon Projects consisting of 48 projects under Capability, Materiel and Technology Development and 15 projects under Bases Support System Development was also approved.

Moreover, the Command prioritized the enhancement of the Intelligence Capability of the Philippine Army to provide timely, accurate, and reliable intelligence. The goal is to have a multi-disciplined and network-integrated intelligence community that will bring about a clear picture of the operational environment for tactical units. Current expertise on Human Intelligence is, thus, complemented and significantly enhanced through its integration with emergent intelligence disciplines.

To institutionalize a comprehensive Reserve Force build-up for territorial defense and in support to nation-building, the Command also developed and maintained selected Ready Reserve Units on high level of personnel and training readiness as the Army. The PA also crafted the Reserve Force Development Program, which focuses its activities and resources in pursuing the Medium and Long-Term Development Program.

Organize

As part of the enhancement of the PA capability and the overall vision of a modern Army, the Command activated the 1st Brigade Combat Team (Provisional) to provide a ready and rapid deployable force and the 11th Infantry Division (11ID) to address security threats in Sulu. The Installation Management Command (Provisional) was also activated to manage, develop, and administer installations and military reservations. The Aviation Regiment (Provisional) now provides the aviation capabilities such as aerial reconnaissance, surveillance, and target acquisition; air assault, and vertical movement of troops and equipment; and medical evacuation, and combat search and rescue.

To augment its organizational capabilities, the Philippine Army also activated the 2nd Multiple Launch Rocket System Battery (Provisional); 1st Land Based Missile System Battery (Provisional); 2nd Air Defense Artillery Battery (Provisional); 14th CMO Battalion; 906th Community Defense Center; and Scout Ranger Company (Provisional), FSRR.

To enhance sniper capability in support to infantry operations, the Division Sniper Company of all Infantry Divisions were activated, consolidating highly-trained snipers for focused employment.

Train

The Command has sustained its breakthrough goals and exhibited its commitment of providing standard and quality trainings in order to produce a competent, well-educated, highly trained, and doctrine-based Army. In this regard, the Combat Leadership Enhancement Program was conducted to capacitate Army leaders in all spectrum of operations and hone their situational awareness essential to mission accomplishment and leader development. The Community Support Program Trainers' Trainings were also conducted to enhance the capacity building in the execution of campaigns. A total of 1,686 Officers, 7,431 Enlisted Personnel (EP), and 67 Civilian Employees took up various local military and civilian courses.

Equip

To continue upgrading and maintaining the key capabilities of individuals and units, the PA implemented various projects and activities under the Capability Upgrade Program (CUP). These were complemented with other acquisition, repair, and maintenance projects for mobility, firepower, and troop and organization support to enhance the readiness of PA units. In support of the PA Modernization Projects, equipment such as Force Protection Equipment and radios have been delivered for issuance to PA Major Units (PAMUs).

Moreover, the Command also issued 13,443 C4S equipment to support mission accomplishment of the PAMUs and acquired 3,200 Zimbra mailbox licenses to secure electronic mail collaboration system. Signal Mobile Maintenance and Repair Team (SMMART) were also deployed to the battalions and units of the Philippine Army for the repair of Information and Communication Technology equipment to sustain the line units.

Support

In pursuit of continuous and strengthened PA operations and organization, the Command crafted four (4) Philippine Army Support Plans, prescribing sustainment and support to the Armed Forces of the Philippines's mission: PA Support Plan to AFP Contingency Plan "Lightning Spear 3" for the conduct of Security and Stability Operations in support of Bangsamoro Organic Law to defeat peace spoilers and other threat groups; PA Support Plan to FRAG-O 03-2019 to AFP Operational Directive 01-2017 for the conduct of enhanced development support operations to defeat the Communist Terrorist Group, and Local Terrorist Groups and neutralize other armed groups; PA Support Plan to AFP-PNP Joint Campaign Plan "Kapanatagan" 2019-2022 for the conduct of joint AFP-PNP security, peace and order, and development support operations to defeat all threat groups and criminal elements; and PA Support Plan to

FRAG-O 04-2019 to OD 01-2017, an addendum to FRAG-O 03-2019, for the conduct of Focused Military Operations, while sustaining the National Task Force to End Local Terrorist Armed Conflict.

Internal security operations were also sustained with 252,965 combat operations conducted against the CNTs resulting to 637 engagements. While 50,923 combat operations were conducted against the Abu Sayyaf Group, Lawless Terrorist Groups, and Lawless Elements resulting to 96 engagements. As an outcome, the Philippine Army gained 1,935 firearms. Overall, the operations resulted to 219 enemy fatalities, and 7,331 others captured, surrendered, or apprehended.

Moreover, the operationalization of Army Social Media Center at the strategic level and Social Media Cell at the operational and tactical levels rendered the Army capable of supporting Information Operations thru digital media operations for a wider range of target audience. As an outcome of the effective strategy in communicating the organization's capability development and mission accomplishment, the Nationwide Trust and Satisfaction of the Filipino people to the Army has remained at excellent category with +79 and +75 ratings, respectively.

Sustain

In support of the PA Modernization Projects, equipment such as Force Protection Equipment and radios have been delivered for issuance to PAMUs. On the part of recruitment, a total of 278 2LTs were incorporated to the Philippine Army Officer Corps while 285 2LTs are currently undergoing training. 4,962 Candidate Soldiers with an additional 373 soldiers, through special enlistment, were also recruited.

Meanwhile, 272 General Officers were promoted, 65 Generals and Senior Officers were designated to Key positions, and 22 Senior Officers were designated to O-6 positions of primary responsibility. Also for the period, 603 regular Officers and 479 Reserve Officers were promoted to the next higher grade. In addition, a total of 12,711 EP were promoted to the next higher rank, significant of which is the promotion of 198 personnel from different PAMUs for the exceptional performance of their tasks.

Army Transformation Roadmap

In the continuous efforts of pursuing institutional transformation, 100 percent of Army units and offices are initiated and have crafted their own performance scorecard. 16 PAMUs have also attained the institutionalized status, now spearheading the transformation in their respective units. The Command was also able to demonstrate an increasing passion towards the attainment of the organization's vision.

B. OPERATIONAL HIGHLIGHTS

The PA's accomplishments per Major Final Output in CY 2019 are shown in the following table vis-à-vis the target:

Measurement Parameters	Target (Annual)	Actual	Accomplishment Rate
OO1. Percentage of tactical units provided to force employers that are in the prescribed readiness condition	57% (111)	79% (153)	139% ³
OO2. Percentage of Ready Reserve units in prescribed readiness condition.	40% (33RRBn)	57% (47RRBn)	143% ⁴
Output Indicators			
OI1. Number of tactical battalions maintained	204	206	101% ⁵
OI2. Number of ready reserve battalions maintained	83	82	99% ⁶
OI3. Percentage of operational readiness of Tactical Battalions	81%	83%	102% ⁷
OI4. Percentage of operational readiness of Ready Reserve Battalions	65%	65.23%	100%
OI5. Average percentage of effective strength of tactical units that can be mobilized within 1 hour as dictated by Higher Headquarters	90%	92%	102%

C. FINANCIAL HIGHLIGHTS

The summary of appropriation, comparative sources and uses of funds, financial position, and financial performance of the Philippine Army for CYs 2019 and 2018 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	₱ 91,407,366	₱ 90,546,082	₱ 87,380,941	₱ 3,165,141

³ The high accomplishment rate is due to the completed individual/unit trainings, additional personnel and additional equipment delivered for the year.

⁴ This is primarily due to the increase in the recruited reservists and completion of programmed trainings for the year.

⁵ This is due to the refilling of 72IB

⁶ This is due to the current security situation in the area of Jolo, Sulu.

⁷ This is largely attributed to the equipment and personnel readiness increase wherein most of the delivered firepower and mission essential engineer equipment items were distributed to tactical battalions.

Fund Source	Amount (in Thousands)			
	Appropriations	Allotments	Obligations Incurred	Balances
Special Purpose Fund	3,553,972	3,553,972	3,553,886	86
Automatic Appropriation	690,795	690,795	690,795	-
Continuing Appropriation		2,463,485	2,421,074	42,411
BCDA Fund		90,359	4,758	85,601
Grand Total	₱ 95,652,133	₱ 97,344,693	₱ 94,051,454	₱ 3,293,239

b. Financial Position

Particulars	Amount (in Thousands)		Increase (Decrease)
	2019	2018 As Restated	
Financial Position			
Assets	₱ 116,137,436	₱ 110,675,218	₱ 5,462,218
Liabilities	5,371,465	4,113,341	1,258,124
Equity	₱ 110,765,971	₱ 106,561,877	₱ 4,204,094

c. Financial Performance

Particulars	Amount (in Thousands)		Increase/ (Decrease)
	2019	2018 As Restated	
Financial Performance			
Total Revenue	₱ 107,742	₱ 148,063	₱ (40,321)
Less: Current Operating Expenses			
Personnel Services	76,928,671	72,429,960	4,498,711
Maintenance & Other Operating Expenses	7,287,899	8,181,433	(893,534)
Financial Expenses	1	-	1
Non-Cash Expenses	1,393,272	1,412,118	(18,846)
Total Current Operating Expenses	₱ 85,609,843	₱ 82,023,511	₱ 3,586,332
Surplus/(Deficit) from Current Operations	(85,502,101)	(81,875,448)	(3,626,653)
Net Financial Assistance/Subsidy	₱ 91,231,457	₱ 85,379,990	5,851,467
Other Non-Operating Income	71,700	33,320	38,380
Gains	2,232	102	2,130
Losses	(579)	(509)	(70)
Surplus for the period	₱ 5,802,709	₱ 3,537,455	₱ 2,265,254

D. SCOPE OF AUDIT

The audit covered the accounts and operations of the PA for CY 2019⁸. 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 2019 accounts and operations of the 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.

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, Department of Budget and Management (DBM), Department Interior and Local Government (DILG), Governance Commission for GOCCs and Department of National Defense (DND).

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 2019 because of (i) accounting errors and omissions totaling ₱2,146,290,262.87 representing 2.50 percent of its total current operating expenses of ₱85,609,843,287.72 (**Annex B**); and (ii) accounting deficiencies amounting to ₱2,005,972,709.76 (**Annex B**).

F. SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

1. Accounting errors and omissions totaling ₱2,146,290,262.87 resulted in the misstatement⁹ of affected accounts which casts doubt on the fair presentation of the PA's Consolidated Financial Statements (FS). (*Observation No. 1*)

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

⁸ Except 2nd and 8th Infantry Divisions who failed to submit their Audit Report/Management Letter

⁹ Misstatement of amount means either overstatement or understatement. Overstatement of amount means that the amount is *incorrect and more than the true amount*. Understatement of amount means that it is *incorrect and less than the true amount*.

2. Accounting deficiencies in recording and reporting financial transactions totaling ₱2,005,972,709.76 undermined the quality of information presented in the FS.. (*Observation No. 2*)

We recommended and Management agreed to: (a) direct the Chief Accountant of 6FAU to make representation with the servicing bank to secure the details of the Credit Memo and prepare the necessary adjusting entries in the books of accounts; (b) direct the Chief Accountant of ASPA, HPA to account for the variance of ₱393,977.31 in the SFA account; (c) submit to COA the request for authority to write-off dormant receivables supported with complete documents pursuant to COA Circular No. 2016-005 dated December 19, 2016; (d) instruct the concerned Disbursing Officers to liquidate their cash advances within five days after the end of the pay period and for Special Disbursing Officers to liquidate their cash advances once the purpose of the cash advances has been served; (e) in the case of the unreconciled difference between 51st EBde, and PS-DBM records, account for and settle them fully; (f) require the Chief Accountant, ASPA to account fully the existing discrepancy of ₱1,132,579,683.96 between the accounting and property records of MPTSI account in close coordination with PAO, GS; (g) request the respective Petron Servicing Stations (PSS) to regularly furnish the military units which they cater with duly certified Statements of Fuel Balances showing the receipt and issuances of fuel for the given period, copy furnished the Logistics Office (U4); (h) require the concerned officials to immediately submit the turnover documents and Report of Disbursements to the Accounting Unit as basis in the reclassification of all completed projects still accounted under CIP account to the appropriate PPE accounts; (i) reconcile the accounting and property records for PPE and make the necessary adjustments, if any; (j) facilitate the transfer of ownership and registration of the PPEs in the name of the PA to prove ownership thereof and to establish the cost of the motor vehicles with unspecified amount to reflect the correct balances of the PPE accounts; and (k) require the CO, 1st Finance Service Field Office (1FSFO) to remit on or before the 10th day of the following month in which withholding was made, the total amount of taxes withheld for the month from suppliers and employees; and exhaust all effort to locate the TRAs, if any and the Summary of Taxes Withheld pertaining to the previous year's transactions.

3. The non-submission of accounting reports covered by JEVs amounting to ₱279,206,526,941.17 limited the scope of audit and precluded the prompt examination of financial transactions, early detection and correction of errors/deficiencies and timely reporting of audit results to management. (*Observation No. 3*)

We recommended that Management require the Chief Accountant of ASPA to: (a) submit immediately all the JEVs complete with relevant supporting documents and henceforth, to strictly observe the deadline set for its submission; (b) ensure the completeness of transmitted documents; and (c) assign a focal person who will monitor the timely submission of all accounting reports.

4. The budgeted revenue from Trust Receipts and Trust Liabilities for CY 2019 posted a low utilization rate of 12.99 percent and 18.67 percent, respectively, which could be attributed to poor planning, coordination and monitoring. (*Observation No. 4*)

We recommended that Management fast track the implementation of duly approved programs, projects and activities under Trust Receipts and Trust Liabilities thru an effective system of coordination and monitoring in order to meet the desired purpose/s or objective/s.

5. Failure of the responsible officials to closely monitor the utilization of funds received from other government agencies resulted in the accumulation of unutilized fund amounting to ₱1,131,359,681.20 as at year end; thus, depriving the end-users of the benefits that could have been derived therefrom had those projects been completed as programmed/planned. (*Observation No. 5*)

We recommended that Management require (a) the PAMU Commanders to closely monitor and fast track the implementation and utilization of the funds received and see to it that the intended purposes for which the funds were transferred are effectively carried out and fully implemented as planned; (b) the Accounting Service, Philippine Army: (i) to submit, without further delay, to the source agency all liquidating documents pertaining to the utilized funds of ₱40,933,176.57¹⁰ as well as any unutilized balance for liquidation purposes; and; (ii) to return to the source agency the excess/residual balance from the COMELEC Fund for the 2019 National and Local Elections of ₱111,478.03, QRF 2016 funds of ₱1,770,759.00; and the unutilized amount for the “Tienda para sa mga Bayani” Program amounting to ₱4,551,505.00.

6. Management failed to demand the full refund of long-outstanding balances aged three years and above amounting to ₱495,279,217.52 pertaining to the excess/unutilized funds transferred to PITC causing delay in its remittance to the National Treasury as mandated by Executive Order (EO) 431. (*Observation No. 6*)

We recommended that Management (a) demand the immediate refund of the long-outstanding excess/unutilized balances in the total amount of ₱495,279,217.52, pursuant to COA Circular No. 94-013; and (b) stop transferring funds to PITC unless all previous balances are utilized/liquidated in a timely manner in order that programmed activities/projects are effectively carried out.

7. Poor monitoring of rental income from concessionaires resulted in: (a) non-settlement of rentals and fees within the specified period under Standard

¹⁰ ₱11,699,518.00 + ₱1,219,964.80 + ₱4,924,094.00 + ₱23,089,599.77 = ₱40,933,176.57

Operating Procedure No. 1; and (b) unbilled rentals and unpaid billings of ₱416,014.00 and ₱195,406.40, respectively, as of year-end. (*Observation No. 7*)

We recommended that Management direct: (a) the Chief, FBHFMC to provide the Office of the Auditor without further delay (i) copies of the unsubmitted contracts; and (ii) updated list of business concessionaires operating inside the HPA premises; and (b) the Chief, ONAF to prepare billings for rentals totaling ₱416,014.00 (₱300,166.00+ ₱115,848.00) and demand immediate payment of unpaid and unbilled rentals totaling ₱611,420.40 (₱195,406.40 + ₱416,014.00).

8. Certain provisions of laws, rules and regulations on reportorial requirements, funds and property management, procurement, and recording of financial transactions were not faithfully adhered to; indicative of weak compliance monitoring by the agency. (*Observation No. 9*)

To strengthen control over the PA's financial and accounting operation, we recommended that Management intensify the monitoring of compliance to the existing accounting and auditing laws, rules and regulation and ensure faithful observance thereof.

9. Audit suspensions and disallowances totaling ₱972,831.58 and ₱119,406,996.92, respectively, remained unsettled as at year-end due to the failure of management to strictly enforce settlement thereof, contrary to Sections 7.1.1 and 10.4 of COA Circular No. 2009-006 dated September 15, 2009. (*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 brought to the attention of concerned officials of the agency in our letter dated July 6, 2020 for further comment. Management's views and reactions were incorporated in this report, where appropriate.

G. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 72 audit recommendations contained in the CY 2018 Consolidated Annual Audit Report, 35 were fully/considered implemented and 37 were not implemented. Details are shown in Part III of this report.