

## **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 October 4, 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.

To accomplish its mission, the PA is structured as follows:

1. Functional Commands perform the development, organization, training, equipment, support and sustain functions;
2. Ground Operating Units conduct the prompt ground operations;
3. Specialty Enablers are the regiments that provide the specialized skills and capabilities to combined arms operations; and
4. 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 Commanding General, Lieutenant General Romeo S Brawner Jr. is assisted by Vice Commander, Major General Henry M Doyaoen and Chief of Staff, Major General Roberto S Capulong.

For Calendar Year (CY) 2021, the Command has a total strength of 107,445 consisting of 7,643 officers and 97,898 enlisted personnel. Its work force is supplemented by 1,350 regular civilian employees, 24 co-terminus with the incumbent staff, 277 job order personnel and 253 retainers.

### **B. FINANCIAL HIGHLIGHTS**

The financial position, financial performance, sources and application of funds for CY 2021 with the corresponding figures for CY 2020 are shown in the next page:

Particulars	2021	2020 (As Restated)	Increase/ (Decrease)
	<i>(In Thousand Pesos)</i>		
<b>Financial Position</b>			
Assets	129,545,750	124,358,139	5,187,611
Liabilities	7,629,194	5,992,761	1,636,433
<b>Net Assets/Equity</b>	<b>121,916,556</b>	<b>118,365,378</b>	<b>3,551,178</b>
<b>Financial Performance</b>			
Revenue	149,503	100,396	49,107
Expenses	89,692,728	88,194,854	1,497,874
<b>Surplus (Deficit) from Current Operations</b>	<b>(89,543,225)</b>	<b>(88,094,458)</b>	<b>(1,448,767)</b>
Net Financial Assistance/ Subsidy	97,556,599	95,229,557	2,327,043
Other Non-Operating Income	57,348	124,872	(67,524)
Gains	326	570	(244)
Losses	(629)	(436)	(193)
<b>Surplus for the period</b>	<b>8,070,420</b>	<b>7,260,104</b>	<b>810,315</b>
<b>Sources and Application of Funds</b>			
Appropriations	102,441,046	100,642,674	1,798,372
Allotments	102,441,046	101,046,695	1,394,351
Obligations Incurred	100,406,385	97,593,595	2,812,790
<b>Unexpended Balance</b>	<b>2,034,660</b>	<b>3,453,100</b>	<b>(1,418,440)</b>

The Statement of Appropriations, Allotments, Obligations, Disbursements and Balances for the year ended December 31, 2021 is shown in **Annex A** of this report.

### C. OPERATIONAL HIGHLIGHTS

The PA's accomplishments per Major Final Output in CY 2021 are shown in the following table vis-à-vis the target:

Particulars	Accomplishment Rate (Percent)
<b>LAND FORCES DEFENSE PROGRAM</b>	
<b>Level of mission capability of Army units in ground operations</b>	
<b>Outcome Indicators</b>	
1. Tactical Units provided to force employers that are in the prescribed readiness condition	97
2. Ready Reserve units in prescribed readiness condition	148
<b>Output Indicators</b>	
1. Tactical and ready reserve units maintained	
a. Tactical Battalions	92
b. Ready Reserve Battalions (RRBn)	98

Particulars	Accomplishment Rate (Percent)
2. Effective strength of tactical battalions that can be mobilized within 1 hour as dictated by higher authorities	100

#### **D. SCOPE OF AUDIT**

The audit covered the financial accounts and operations for CY 2021 of the Headquarters Philippine Army (HPA) and 17 field units. The Auditor’s Report on the 8<sup>th</sup> Infantry Division is not included in this report due to non-submission of Management Letter at the time of the consolidation.

#### **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 of December 31, 2021. The Matrix of Analysis on the Effects of Misstatements on the Financial Statements is shown in **Annex B**.

#### **F. SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS**

Among the audit observations and corresponding recommendations discussed in Part II of this report, the significant observations are summarized as follows:

1. The balance of the Cash in Bank-Local Currency, Current Account (CIB-LCCA) totaling ₱2.611 billion is overstated by a net amount of ₱18.918 million due to unadjusted stale checks and unrecorded reconciling items as at year-end. Moreover, significant delays ranging from 7 to 354 days in the submission of Bank Reconciliation Statements (BRS) precluded timely analysis and verification of accounts and transactions. (*Observation No. 1*)

We recommended and Management agreed to direct the: a) Chief, Accounting Service, Philippine Army (ASPA) to prepare necessary adjusting entries to record reconciling items that were not taken up in the books to reflect correct balances of the affected accounts; and b) concerned field units accountants to strictly comply with the prescribed period for the preparation and submission of the BRS.

2. The balances as at December 31, 2021 of Due from National Government Agencies and Due from Government-Owned and/or Controlled Corporations accounts totaling ₱72.594 million and ₱3.927 billion, respectively, are unreliable due to the: a) unreconciled difference totaling ₱848.070 million between records of the HPA and the Procurement Service–Department of Budget and Management (PS-DBM); and the Philippine International Trading Corporation (PITC); and b) existence of non-moving/inactive/dormant accounts, aged more than ten years, totaling ₱20.279 million. (*Observation No. 2*)

We recommended and Management agreed to require the Chief, ASPA to: a) expedite reconciliation of the PS-DBM and PITC accounts, in coordination with the Chief, 15<sup>th</sup> Field Property Accountability Office and other concerned personnel, with the end view of determining the cause/s of the difference, adjusting records and bringing the balances in agreement; b) make representations with the PS-DBM and PITC to facilitate delivery of items requested for procurement and to return to PA and remit to the Bureau of the Treasury (BTr) any unutilized balance of fund transfers; and c) request authority for write-off of dormant balances in accordance with COA Circular No. 2016-005 dated December 19, 2016.

3. The accuracy of the Inventories accounts could not be relied upon due to: a) unreconciled difference amounting to ₱3.012 billion between the records of ASPA and Property Accountability Office-General Support (PAO-GS); b) non-submission of Report of Supplies and Materials Issued (RSMI) to record issuances of inventories, including issuances of fuel, oil and lubricants; and c) unrecorded goods already delivered totaling ₱1.603 billion under Letters of Credit. Moreover, non-conduct of physical inventory and non-maintenance of Stock Ledger Cards (SLCs) and Stock Cards (SC) were noted. (*Observation No. 3*)

We recommended and Management agreed to require the: a) Chiefs, ASPA and PAO-GS to reconcile their records; b) Chief, PAO-GS and concerned Field Property Accountability Offices (FPAOs) to immediately submit to the ASPA and Field Accounting Units (FAUs) the required RSMIs with the corresponding RIS and record the issued inventories; c) Chief, ASPA to record the goods delivered under LCs; and d) Chiefs, ASPA/FAUs and PAO-GS/FPAOs to maintain SLCs and SCs, respectively, and the PAO-GS/FPAOs to conduct physical count of inventories and reconcile the results thereof with the SLCs and SCs.

4. Inventories in the HPA and 3<sup>rd</sup> Infantry Division (3ID) totaling ₱64.822 million were recognized as outright expenses upon purchase instead of coursing through the appropriate inventory accounts contrary to Section 9, Chapter 8 of the Government Accounting Manual (GAM) Volume (Vol.) I, casting doubt on the reliability of the balances of inventory and expense accounts. (*Observation No. 4*)

We recommended and Management agreed to direct the Chief Accountants of the HPA and 3ID to record to the related inventory accounts all purchases of supplies and materials and other inventories upon receipt and to the corresponding expense accounts upon issuances thereof.

5. The reliability and accuracy of Property, Plant and Equipment (PPE) account balances could not be ascertained due to: a) unreconciled difference of ₱2.782 billion between the balances per property and accounting records; b) PPEs totaling ₱53.786 million recorded in the accounting records but not included in the RPCPPE; c) unrecorded PPE found at station totaling ₱221,108.42; d) unrecorded transfer of 1,322 motor vehicles totaling ₱953.397 million; e) non-recognition of completed/delivered projects under Letters of Credit and Repairs, Maintenance and

Construction Fund totaling ₱182.405 million; f) misclassification of PPE accounts totaling ₱8.460 million; g) non-reclassification of completed projects under the Construction in Progress accounts to the appropriate PPE accounts totaling ₱50.494 million; and h) non-recognition of PPE received from the HPA by the field unit. Moreover, other deficiencies were observed, as follows: (i) absence of common reference numbers for PPE items in the records of accounting and property offices; (ii) non-conduct of physical count of PPE; and (iii) guidelines prescribed in the preparation and maintenance of Property Cards (PC) were not strictly complied. (*Observation No. 5*)

We recommended and Management agreed to direct the: a) Chiefs, ASPA and PAO-GS to reconcile records, determine cause/s of difference and draw adjusting and correcting entries as necessary; b) Chief, ASPA to recognize in the books all reconciling items; and c) concerned Accountants and Property Officers to assign reference number to each PPE item, conduct annual physical inventory and prepare and maintain PCs for each PPE.

6. The closure of Letters of Credit for completed and terminated projects amounting to ₱1.721 billion and ₱34.6 million, respectively, were not facilitated and balances thereof were not reverted and remitted to the BTr contrary to Section 5.2 of Treasury Circular No. 3-2019 dated May 10, 2019. (*Observation No. 6*)

We recommended that Management direct the Chiefs, PAPC and ASPA to facilitate the closure of the LCs pertaining to the completed projects and terminated contracts and the reversion and remittance of the corresponding amounts to the BTr.

Other equally significant audit observations and recommendations were also noted and discussed in detail in Part II of this report.

The above findings and recommendations contained in the report were discussed during the exit conference with concerned agency officials held on May 10, 2022. Management's comments were considered in the report, where appropriate.

## **G. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

Of the 38 prior years' audit recommendations, 15 were implemented while 23 were not implemented, of which 16 were reiterated/revised/updated in Part II of this report.