

# 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 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 setup, the Commanding General, Lieutenant General Romeo S Brawner Jr is assisted by Vice Commander, Brigadier General Steve D Crespillo and Chief of Staff, Brigadier General Potenciano C Camba.

For Calendar Year (CY) 2022, the Command has a total strength of 111,491 consisting of 7,748 officers and 101,821 enlisted personnel. Its workforce is supplemented by 1,371 regular civilian employees, 21 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 2022 with the corresponding figures for CY 2021 are shown on the next page:

Particulars	2022	2021 (As Restated)	Increase/ (Decrease)
	<i>(In Thousand Pesos)</i>		
<b>Financial Position</b>			
Assets	₱131,167,907	₱124,509,663	₱6,658,244
Liabilities	7,244,269	8,570,592	(1,326,323)
<b>Net Assets/Equity</b>	<b>123,923,638</b>	<b>115,939,071</b>	<b>7,984,567</b>
<b>Financial Performance</b>			
Revenue	1,948,471	99,841	1,848,630
Expenses	102,256,871	92,539,816	9,717,055
<b>Surplus (Deficit) from Current Operations</b>	<b>(100,308,400)</b>	<b>(92,439,975)</b>	<b>7,868,425</b>
Net Financial Assistance/ Subsidy	104,440,515	95,725,708	8,714,807
Other Non-Operating Income	14,305	57,638	(43,333)
Gains	6,273	326	5,947
Losses	(5,277)	(629)	(4,648)
<b>Surplus (Deficit) for the period</b>	<b>4,147,416</b>	<b>3,343,068</b>	<b>804,348</b>
<b>Sources and Application of Funds</b>			
Appropriations	112,593,549	102,441,046	10,152,503
Allotments	112,593,549	102,441,046	10,152,503
Obligations Incurred	109,352,393	100,406,385	8,946,008
<b>Unexpended Balance</b>	<b>₱3,241,156</b>	<b>₱2,034,661</b>	<b>₱1,206,495</b>

The Statement of Appropriations, Allotments, Obligations, Disbursements and Balances for the year ended December 31, 2022 is shown in Annex A of this report.

## C. OPERATIONAL HIGHLIGHTS

The PA's accomplishments vis-à-vis the target per Major Final Output in CY 2022 are as follows:

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. Percentage of Tactical Units provided to force employers that are in the prescribed readiness condition	81

Particulars	Accomplishment Rate (Percent)
2. Percentage of Ready Reserve units in prescribed readiness condition	94
<b>Output Indicators</b>	
1. Percentage of operational readiness of tactical and ready reserve units	
a. Tactical Battalions	88
b. Ready Reserve Battalions	84
2. Average percentage of effective strength of tactical battalions that can be mobilized within one hour as dictated by higher authorities	90

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

The audit covered the financial accounts and operations for CY 2022 of the Headquarters Philippine Army and field units.

#### **E. INDEPENDENT AUDITOR'S REPORT**

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of the Philippine Army as of December 31, 2022.

#### **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 Philippine Army's Consolidated Financial Statements were misstated due to accounting errors and omissions totaling ₱783.607 million which include unrecorded book reconciling items, stale checks, rebates, subsidies of inventory to field units, donated inventories, receipt and transfer of properties and completed project. (*Observation No. 1*)

We recommended that Management direct the Chief Accountants of the concerned units to obtain the necessary documents to support the recording and adjustment of the reconciling items and errors to reflect the correct balances of the affected accounts in the books.

2. Accounting deficiencies such as unreconciled balances, unliquidated balances, existence of dormant and long-outstanding receivables and delayed or non-submission of reports affected the fair presentation of the financial statements of the Philippine Army. (*Observation No. 2*)

We recommended and Management agreed to: a) instruct the Chief Accountant, in coordination with the concerned officials, to: (i) identify the causes of unreconciled balances and conduct regular reconciliation of balances with the concerned agencies; (ii) exhaust all possible remedies to facilitate the collection of the dormant and long-outstanding other receivables; b) direct the concerned officials to facilitate the liquidation of balances for completed projects under the Repair, Maintenance and Construction funds; and c) instruct the concerned officials to submit the required reports and documents and strictly observe the prescribed period of submission.

3. The receipt by the Philippine Army of construction materials totaling ₱1.837 billion from the Department of Transportation was recorded in the books but was supported by a Property Transfer Report (PTR) which did not include an itemized list of the donated inventory and was not received by the Property Accountable Officer. (*Observation No. 3*)

We recommended and Management agreed to ensure that the receipt of donations shall be supported with PTR with complete information and duly acknowledged and received by the accountable officer.

4. Cash advances (CAs) totaling ₱2.756 million remained unliquidated at year-end. Moreover, other deficiencies on the grant and liquidation of CAs were noted, such as: a) granting of additional advances to Accountable Officers (AOs) with unliquidated balances; (b) non-maintenance of cashbook or Cash Disbursement Record (CDR); (c) insufficient fidelity bond of Collecting Officer (CO); and d) non-submission of notices of reassessment/retirement/transfer of AOs. (*Observation No. 4*)

We recommended that Management: a) instruct the Chief Accountants to: (i) require the AOs to immediately submit liquidation documents for the outstanding cash advances or refund any unused balance; and (ii) ensure that previous advances were fully settled before granting additional advances; b) direct AOs to prepare and maintain a cashbook for the recording of CAs received, payments, refunds, and adjustments made out of the CAs; c) require CO to make representation with the Finance Center to facilitate increase in the fidelity bond to fully protect the interest of the government; and d) notify the Office of the Auditor of impending retirement/relief/transfer of Accountable Officers (AOs) for the timely conduct of terminal cash examinations.

5. The availment of the One-Time Cleansing of Property, Plant and Equipment (PPE) balances by the PA in CY 2022 resulted in a significant decrease in the unreconciled amount between balances per accounting and property records from ₱2.782 billion in CY 2021 to ₱1.034 billion in CY 2022, or a 62.85 percent reduction, which reflected the efforts and actions taken by Management to address the deficiencies identified. However, the adjustment of the remaining unreconciled balance was not facilitated due to absence of details and documentary requirements. (*Observation No. 5*)

We recommended and Management agreed to direct the concerned officials to: a) enable early completion of the ongoing reconciliation to identify cause/s of the discrepancy of the unreconciled variance; and b) effect adjustment as necessary and address other identified issues and concerns such as: timely submission of PTRs by the Property Accountability Office-General Support to the Accounting Service, Philippine Army for the preparation of JEVs to recognize transfers of PPE to field units; and preparation of IIRUP with complete details of the disposed unserviceable properties to facilitate dropping from the accounting records.

6. The balance of Due to National Government Agencies in the HPA amounting to ₱1.214 billion is unreliable due to existence of balances for reconciliation totaling ₱8.544 million. Likewise, it includes unreturned balance of fund transfers for completed projects totaling ₱50.085 million and unliquidated disbursements amounting to ₱541.483 million that should have already been settled with the Source Agency. (*Observation No. 6*)

We recommended that Management direct the Army Chief Accountant and concerned officials to: (a) identify the cause/s of unreconciled balances and draw necessary adjustments; (b) return the unexpended balances of ₱50.085 million to the SAs for projects that were already completed; and c) facilitate preparation of Report of Disbursements and liquidation documents of ₱541.483 million, to report the utilization of the funds.

7. Seven projects with a total cost of ₱65.188 million programmed in CYs 2016 and 2018 and charged against the Repair, Maintenance and Construction (RMC) Fund, remained unimplemented as of December 31, 2022. Moreover, no projects were programmed in CYs 2019 to 2022 due to non-approval by concerned officials of the proposed projects, thus, depriving end-users of benefits that could have been derived therefrom. (*Observation No. 7*)

We recommended that Management direct the Office of the Army Chief Quartermaster, in coordination with Petron Corporation, to facilitate the implementation and early completion of the seven projects programmed in prior years. Likewise, secure the approval of the proposed projects to maximize use of the funds and the benefits that could be derived therefrom.

Other equally significant audit observations and recommendations are presented in detail in Part II of this report.

The above findings and recommendations contained in the report were discussed with concerned agency officials during the exit conference held on May 12, 2023. Management's comments were incorporated in this report, where appropriate.

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

Out of the 32 prior years' audit recommendations, 6 were implemented while 26 were not implemented, of which 13 were reiterated/revised/updated in Part II of this report.