

## EXECUTIVE SUMMARY

### A. INTRODUCTION

The Philippine Air Force (PAF) was created as a Major Command of the Armed Forces of the Philippines (AFP) on July 1, 1947 pursuant to the provisions of Section 110 of Executive Order No. 94 dated October 4, 1947. The PAF is located at the Col. Jesus Villamor Air Base, formerly named Nichols Air Base, in Pasay City by virtue of Batas Pambansa No. 166 dated February 8, 1982.

The PAF is responsible for the defense of the Philippine airspace, aerial photography and reconnaissance, close air support to combat forces, development of doctrines and tactics for air operations, participation in national development, and search and rescue operations.

On June 13, 2017, the Philippine Air Force has reorganized to align with the AFP Force Structure and AFP Strategic Plan. The PAF Table of Organization (TO) was approved by the Secretary of National Defense on June 5, 2017 with the following highlights:

- a. Activation of the Air Defense Command, Air Mobility Command, and Tactical Operations Command;
- b. Reactivation of the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> Tactical Operations Wings; and
- c. Reorganization of the 600<sup>th</sup>, 560<sup>th</sup> and 530<sup>th</sup> Air Base Wings into Air Base Groups.

Under the present organization, the Command is headed by LtGen Allen T Paredes and assisted by Vice Commander, MGen Pelagio R Valenzuela and Staff. The PAF is composed of 11 bases/units and an Air Station. Each of these bases has its own Field Accounting Unit (FAU) that prepare reports and financial statements for consolidation by the Air Force Accounting Center (AFAC) in the Headquarters except for CERAB which is served by CAB. The PAF Units with manpower complements are shown below:

<b>Philippine Air Bases</b>	<b>Military</b>	<b>Civilian</b>
CJVAB - Colonel Jesus Villamor Air Base, Pasay City, Headquarters, PAF	7,081	669
FAB - Fernando Air Base, Lipa City Air Education Training & Doctrine Command (AETDC)	1,533	103
BAB - Basa Air Base, Floridablanca, Pampanga	1,668	86
CAB - Clark Air Base, Clarkfield, Pampanga	2,110	175
DAAB - Danilo Atienza Air Base, Cavite City, 15 <sup>th</sup> Strike Wing (SW)	980	40
MBEAB - Mactan Benito Ebuen Air Base Lapu-Lapu City	1,756	74

<b>Philippine Air Bases</b>	<b>Military</b>	<b>Civilian</b>
EAAB - Edwin Andrews Air Base, Zamboanga City, 530 <sup>th</sup> Air Base Wing (ABW)	1,127	52
ABAB - Antonio Bautista Air Base, Puerto Princesa City	493	13
CERAB - Colonel Ernesto Ravina Air Base, Tarlac City	723	5
Wallace Air Station - San Fernando, La Union	671	13
TOWSOL – Tactical Operations Wing Southern Luzon	250	2
TOWEASTMIN – Tactical Operations Wing Eastern Mindanao	327	1
<b>Total</b>	<b>18,719</b>	<b>1,233</b>

## **B. OPERATIONAL HIGHLIGHTS**

The performance of the targeted overall mission of PAF for CY 2019 was stated in the following Major Final Output (MFO) with corresponding performance indicators as validated:

<b>MFO 1</b>	<b>Performance Indicator</b>	<b>Target</b>	<b>Accomplishment</b>
Territorial Defense, Security and Stability Services	Number of supportable aircrafts maintained	154	155
	Percentage of accomplishment of one-hour response to directed flight mission	90%	99%
	Percentage of flying hours flown	100%	95%

## **C. FINANCIAL HIGHLIGHTS**

PAF's CY 2019 financial position, financial performance and allotments and obligations incurred with the corresponding figures for CY 2019 are as follows (in thousands):

<b>Particulars</b>	<b>2019</b>	<b>2018</b>
Appropriations	26,355,444	25,845,533
Allotments (includes Special Releases)	26,344,891	25,825,314
Obligations	25,999,586	25,809,681
Balances	345,305	15,633
Assets	99,927,437	96,497,277
Liabilities	2,372,767	2,762,484
Net Assets/Equity	97,554,670	93,734,793
Revenue	125,027	120,984
Expenses	23,620,233	22,105,474
Deficit	23,495,206	21,984,490

The details of allotments, obligations and balances are presented in Annex 1.

## **D. SCOPE OF AUDIT**

The audit covered the operations and financial transactions of PAF Headquarters and six bases for calendar year 2019. The report does not include Maj Danilo Atienza Air Base and Antonio Bautista Air Base due to non-submission of report.

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

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of PAF as at December 31, 2019. The Matrix of the Analysis on the Effects of Misstatements on the Financial Statements is shown in Annex 2.

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

1. The balance of *Cash in Bank (CIB) – Local Currency, Current Account (LCCA)* amounting to ₱2.211 billion as of December 31, 2019 is misstated by ₱8.444 million due to unrecorded reconciling items as at year-end, hence, affecting the fair presentation of the Financial Statements (FS) contrary to Section 15, Chapter 2 of the Government Accounting Manual (GAM), Volume I. (*Observation No. 1*)

We recommended and Management agreed to instruct the AFAC to recognize the reconciling items of ₱8,444,254.20 (net) in the books for fair presentation of the affected accounts in the financial statements.

2. Other Receivables account totaling ₱52.517 million at year-end is inaccurate and unreliable due to: a) inclusion of long outstanding dormant accounts deemed uncollectible totaling ₱21.867 million; and b) inclusion of abnormal balances due to improper recording of billing and unreconciled balances due to migration of data from old e-NGAS to new e-NGAS totaling ₱0.988 million. Moreover, management leniency in the imposition of sanctions such as disconnection of meters, cancellation of contract/permit and eviction of delinquent occupants of housing facilities resulted in the accumulation of receivables totaling ₱ 24.831 million at year-end. (*Observation No. 2*)

We recommended and Management agreed to: a) direct the AFAC to submit request for write-off of dormant accounts deemed uncollectible in accordance with COA Circular 2016-005; b) direct the AFAC and 520<sup>th</sup> ABW to investigate the cause of abnormal balances in Other Receivables account and AFAC to draw adjusting journal entries, if necessary. Moreover, require the AFAC to monitor the billings and actual collections made to prevent future incurrence of negative balances in the future; and c) strictly implement the SOP on the settlement of accounts and enforce collection of all current accounts to prevent from becoming past due.

3. The Inventory Held for Consumption accounts with a balance of ₱4.547 billion as at December 31, 2019 was unreliable due to discrepancy between accounting and property records totaling ₱117.451 million which could be attributed to the following: (a) unrecorded prior and current years' issuances totaling ₱18.081 million; (b) capital assets erroneously recorded as inventory amounting to ₱112.305 million; and (c) undisposed unserviceable inventories, in the aggregate amount of ₱65.474 million. (*Observation No. 3*)

We recommended that Management: a) instruct the SAOs to submit immediately the required RSMIs; and henceforth, prepare and submit RSMIs regularly to the AFAC for consolidation and appropriate recognition of issuances in the books of accounts; b) direct the AFAC to draw Journal Entry Voucher/s to reflect the correct balance of the affected accounts; and henceforth, exercise due diligence in prompt and proper recording of financial transactions to ensure that the Financial Statements are fairly presented at any given time; c) instruct the SAOs to prepare the Waste Material Report on unserviceable inventories for submission to the Disposal Committee and thereafter submit to AFAC the disposal documents for proper recording in the books; and d) require the SAOs and the AFAC to conduct periodic reconciliation of their records and take necessary actions on noted discrepancies.

4. The carrying value of Property, Plant and Equipment (PPE) account totaling ₱86.902 billion as of December 31, 2019 is understated by ₱13.801 million due to existence of negative account balances and failure to properly classify accounts, contrary to Section 15, Chapter 2 and Sections 8(g) and 27(c), Chapter 10 GAM for NGAs Volume I. Moreover, other deficiencies were also noted such as: a) failure to conduct annual physical count in EAAB; b) the whereabouts of unaccounted properties totaling ₱622,458.00 is still unknown for more than three years; and c) lack of detailed breakdown of PPEs aggregately recorded in Subsidiary Ledger (SL) cast doubt on the reliability, existence and accuracy of the PPE accounts. (*Observation No. 4*)

We recommended that Management a) direct the AFAC to prepare the necessary adjustment on transferred PPE including the related depreciation for fair presentation of the affected accounts in the financial statements; b) direct the AFCE to submit the Certificate of Completion and Final Acceptance to

AFAC and draw the necessary journal entries to correct the misstatements in all affected accounts; c) direct all concerned SAOs of OA-4, 420<sup>th</sup> SW, Chief SAO and AFAC to investigate the cause of the missing/unaccounted PPEs and make the necessary adjustments in the books, if warranted; and d) direct concerned SAOs of AFCE, WESO and AFAC to: (i) conduct physical count of properties; (ii) facilitate the reconciliation of records; and (iii) determine the breakdown of PPEs aggregately recorded in the books of account to provide accurate and reliable balances in the financial statements.

5. The balance of Due to National Government Agencies (NGAs) account amounting to ₱1.206 billion as at year-end was unreliable due to accounting errors totaling ₱11.660 million. Moreover, collections amounting to ₱10.280 million were not remitted to the BTr contrary to existing regulations. (*Observation No. 5*)

We recommended and Management agreed to require the: a) OFMAF, PAFPC, AFFC and AFAC to remit all collected and subsequent collections of liquidated damages to the BTr; b) OA-3, 900<sup>th</sup> AFWG and AFAC to prepare billings for the aircraft operational cost incurred in the cloud seeding operation totaling ₱409,980.69; c) OFMAF, AFAC and AFFC to remit all income accrued to the BTr; and d) AFAC to prepare necessary journal entries to effect the adjustments on the affected accounts.

6. Rebates earned from contract with Petron Corporation constituted as Repairs, Maintenance and Construction (RMC) Fund totaling ₱322.406 million from CYs 2015 to 2019 and its utilization amounting to ₱46.598 million were not recorded in the books of the Agency contrary to Section 31, Chapter 2 of Government Accounting Manual (GAM), Volume 1. Moreover, 11 completed projects in the different air bases were not recorded in the appropriate PPEs account. (*Observation No. 6*)

We recommended that Management direct: a) the A-4 to expedite and coordinate with Petron Corporation the immediate delivery/completion of projects. For subsequent agreements, include a provision on timelines and target completion dates of any and all projects that will be implemented. In addition, include in the POE the scope of works, period of implementation and monitoring of project implementation to be performed in accordance with POE; b) consider the proposition of directly managing the RMC fund and deposit the same with National Treasury as Trust Fund or, in the alternative, consider rebates as form of trade/bulk discount directly deductible from every payment in order to reduce the contract cost and use the savings to augment operational requirements of the agency; and c) the AFAC to record the total RMC fund and the equipment delivered/works completed (out of the RMC fund) in the appropriate PPEs accounts in accordance with the provisions of GAM.

7. Funds transferred to PITC for purposes of procurement outsourcing has accumulated to ₱736.14 million as of December 31, 2019 due to non-delivery of items requisitioned/ delayed project implementation; thus depriving the Command of its immediate use. Moreover, conditions prior to outsourcing of procurement were not met as provided in GPPB Resolution No. 18-2007 dated May 31, 2007 and Revised 2016 IRR of RA 9184 V(5)(b) of unexpended balance amounting to ₱ 0.58 million. (*Observation No. 7*)

We recommended and Management agreed to: a) expedite the immediate delivery of procured items covered by the AORs to enable the end-users to utilize the much needed supplies and equipment; otherwise, request the refund of unused advances and remit the same to the National Treasury; and b) stop transferring funds to PITC, unless, previously procured items were fully delivered and only in cases where the PAFBAC lacks the capability to undertake the procurement.

8. Residual/unexpended balance of funds received from Source Agencies amounting to ₱2.571 million was not returned despite project completion. (*Observation No. 8*)

We recommended that Management instruct the OFMAF and AFFC to return all unexpended balance to Source Agencies totaling ₱2,570,519.52.

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

The foregoing observations and recommendations were presented to management for further comments before its finalization. Management's views and reactions were incorporated in this report, where appropriate.

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

Out of the 45 audit recommendations contained in the 2018 Consolidated Annual Audit Report, 26 were fully considered implemented and 19 were not implemented. Details of which are discussed in Part III of this report.