

**STATE AUDIT  
CODE  
OF THE  
PHILIPPINES**



THE STATE AUDIT CODE  
OF THE PHILIPPINES

(P.D. No. 1445)

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**Office of the President  
Malacañang, Manila**

**PRESIDENTIAL DECREE NO. 1445**

**ORDAINING AND INSTITUTING A  
GOVERNMENT AUDITING CODE OF THE PHILIPPINES**

WHEREAS, the creation and establishment of the Commission on Audit under the new Constitution and its recent reorganization and restructuring by virtue of Presidential Decree No. 898 have rendered more pressing the long-felt need to codify in revised and updated form, in keeping with modern trends of government auditing and progressive legislation on the subject, various scattered auditing laws, rules and regulations, and to incorporate therein presidential decrees, orders, proclamations, and instructions germane and relevant thereto for integrated effect;

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Philippines, by virtue of the powers vested in me by the Constitution, do hereby order and decree.

**PRELIMINARY TITLE**

**GENERAL PROVISIONS**

**Section 1. Title.** This law shall be known and cited as the "Government Auditing Code of the Philippines."

**Section 2. Declaration of Policy.** It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.

**Section 3. Definitions of terms.** Wherever used in this Code, the following terms shall be taken and understood in the sense indicated hereunder, unless the context otherwise requires:

- (1) "Fund" is a sum of money or other resources set aside for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations, and constitutes an independent fiscal and accounting entity.
- (2) "Government funds" includes public moneys of every sort and other resources pertaining to any agency of the government.
- (3) "Revenue funds" comprises all funds derived from the income of any agency of the government and available for appropriation or expenditure in accordance with law.
- (4) "Trust funds" refers to funds which have come officially into the possession of any agency of the government or of a public officer as trustee, agent, or administrator, or which have been received for the fulfillment of some obligation.

- (5) "Depository funds" comprises funds over which the officer accountable therefor may retain control for the lawful purposes for which they came into his possession. It embraces moneys in any and all depositories.
- (6) "Depository" means any financial institution lawfully authorized to receive government moneys upon deposit.
- (7) "Resources" refers to the actual assets of any agency of the government such as cash, instruments representing or convertible to money, receivables, lands, buildings, as well as contingent assets such as estimated revenues applying to the current fiscal period not accrued or collected and bonds authorized and unissued.
- (8) "Government agency" or "agency of the government," or "agency" refers to any department, bureau or office of the national government, or any of its branches and instrumentalities, or any political subdivision, as well as any government-owned or controlled corporation, including its subsidiaries, or other self-governing board or commission of the government.

**Section 4. Fundamental principles.** Financial transactions and operations of any government agency shall be governed by the fundamental principles set forth hereunder, to wit:

- (1) No money shall be paid out of any public treasury or depository except in pursuance of an appropriation law or other specific statutory authority.
- (2) Government funds or property shall be spent or used solely for public purposes.
- (3) Trust Funds shall be available and may be spent only for the specific purpose for which the trust was created or the funds received.
- (4) Fiscal responsibility shall, to the greatest extent, be shared by all those exercising authority over the financial affairs, transactions, and operations of the government agency.
- (5) Disbursements or disposition of government funds or property shall invariably bear the approval of the proper officials.
- (6) Claims against government funds shall be supported with complete documentation.
- (7) All laws and regulations applicable to financial transactions shall be faithfully adhered to.
- (8) Generally accepted principles and practices of accounting as well as of sound management and fiscal administration shall be observed, provided that they do not contravene existing laws and regulations.

## TITLE I

### THE COMMISSION ON AUDIT

#### CHAPTER 1 ORGANIZATION

**Section 5. Composition of the Commission on Audit; qualifications, term, and salary of members.**



- (1) The Commission on Audit, hereinafter referred to as the Commission, shall be composed of a Chairman and two Commissioners, who shall be natural-born citizens of the Philippines and, at the time of their appointment, at least forty years of age and certified public accountants or members of the Philippine Bar for at least ten years.
- (2) The Chairman and the Commissioners shall be appointed by the Prime Minister for a term of seven years without reappointment. Of the Commissioners first appointed, one shall hold office for seven years, another for five years, and the third for three years. Appointment to any vacancy shall only be for the unexpired portion of the term of the predecessor.
- (3) The Chairman and each Commissioner shall receive an annual salary of sixty thousand pesos and fifty thousand pesos, respectively, which shall not be decreased during their continuance in office.

**Section 6. The Commission Proper.**

- (1) For purposes of this Code and as a component of the organizational structure of the Commission, the Chairman and the two Commissioners shall together be known as the Commission Proper and as such shall be distinguished from the other components of the Commission consisting of the central and regional offices which are hereinafter created.
- (2) The Commission Proper shall sit as a body to determine policies, promulgate rules and regulations, and prescribe standards governing the performance by the Commission of its powers and functions.
- (3) The Chairman shall act as the presiding officer of the Commission Proper and the chief executive officer of the Commission. As such chief executive officer, he shall be responsible for the general administration of the Commission.
- (4) The Chairman and each Commissioner shall have such technical and clerical personnel in their respective offices as may be required by the exigencies of the service.

**Section 7. Central and regional offices.**

- (1) The Commission shall have the following central offices:
  - a. Administrative Office
  - b. Planning, Financial, and Management Office
  - c. Legal Office
  - d. Accountancy Office
  - e. National Government Audit Office
  - f. Local Government Audit Office
  - g. Corporate Audit Office
  - h. Performance Audit Office
  - i. Manpower Development Office
  - j. Technical Service Office

These offices shall perform primarily staff functions, exercise technical supervision over the regional offices in matters pertaining to their respective functional areas, and perform such other functions as may be assigned by the Chairman.

- (2) The Commission shall keep and maintain such regional offices as may be required by the exigencies of the service in accordance with the Integrated Reorganization Plan for the national government, or as may be provided by law, which shall serve as the immediate representatives of the Commission in the regions under the direct control and supervision of the Chairman.
- (3) The central and regional offices shall each be headed by a Manager and a Regional Director, respectively. The Manager of the Legal Office shall also be known and shall act as the General Counsel of the Commission.

**Section 8. Commission Secretariat.** There shall be a Commission Secretariat to be headed by the Secretary to the Commission who shall have the rank and privileges of a central office manager.

**Section 9. The Administrative Office.** The Administrative Office shall perform the following functions:

- (1) Develop and maintain a personnel program which shall include recruitment, selection, appointment, performance evaluation, employee relations, and welfare services; and
- (2) Provide the Commission with services related to personnel, records, supplies, equipment, medical, collections and disbursements, security, general and other related services.

**Section 10. The Planning, Financial, and Management Office.** The Planning, Financial, and Management Office shall have the following functions:

- (1) Formulate long-range and annual plans and programs for the Commission;
- (2) Formulate basic policies and guidelines for the preparation of the budget of the Commission, coordinate with the Budget Commission and the Office of the President (Prime Minister) in the preparation of the said budget;
- (3) Maintain and administer the accounting system pertaining to the accounts of the Commission;
- (4) Develop and administer a system for monitoring the prices of materials, supplies, and equipment purchased by the government;
- (5) Develop and maintain the management information system of the Commission; and
- (6) Develop and administer a management improvement program, including a system for measurement of performance of auditing units on which an annual report shall be submitted to the Chairman not later than the thirty-first day of January each year.

**Section 11. The Legal Office.** The Legal Office shall be charged with the following responsibilities:

- (1) Perform advisory and consultative functions and render legal services with respect to the performance of the functions of the Commission and the interpretation of pertinent laws and auditing rules and regulations;

- (2) Handle the investigation of administrative cases filed against the personnel of the Commission, evaluate and act on all reports of involvement of the said personnel in anomalies or irregularities in government transactions, and perform any other investigative work required by the Commission upon assignment by the Chairman;
- (3) Represent the Commission in preliminary investigations of malversation cases discovered in audit, assist and collaborate with the Solicitor General and the Tanod Bayan in handling cases involving the Chairman or any of the Commissioners, and other officials and employees of the Commission in their official capacity; and
- (4) Coordinate, for the Commission and with the appropriate legal bodies of government, with respect to legal proceedings towards the collection and enforcement of debts and claims, and the restitution of funds and property, found to be due any government agency in the settlement and adjustment of its accounts by the Commission.

**Section 12. The Accountancy Office.** The Accountancy Office shall have the following functions:

- (1) Prepare, for the Commission, the annual financial report of the Government, its subdivisions, agencies, and instrumentalities, including government-owned or controlled corporations, and such other financial or statistical reports as may be required by the Commission;
- (2) Verify appropriations of national government agencies and control fund releases thereto; and
- (3) Prepare statements on revenues and expenditures of local government units, and on their legal borrowing and net paying capacities for re-classification and other purposes.

**Section 13. The National Government Audit Office.** The National Government Audit Office shall perform the following functions:

- (1) Formulate and develop plans, programs, operating standards, and administrative techniques for the implementation of auditing rules and regulations in departments, regions, bureaus, and offices of the National Government;
- (2) Formulate accounting rules and regulations for departments, regions, bureaus, and offices of the National Government; and
- (3) Advise and assist the Chairman on matters pertaining to the audit of the departments, regions, bureaus, and offices of the National Government.

**Section 14. The Local Government Audit Office.** The Local Government Audit Office shall have the following functions:

- (1) Formulate and develop plans, programs, operating standards, and administrative techniques for the implementation of auditing rules and regulations in local government units;
- (2) Formulate accounting rules and regulations for local government units; and
- (3) Advise and assist the Chairman on matters pertaining to the audit of local government units.

**Section 15. The Corporate Audit Office.** The Corporate Audit Office shall perform the following functions:

- (1) Formulate and develop plans, programs, operating standards, and administrative techniques for the implementation of auditing rules and regulations in government-owned or controlled corporations and self-governing boards, commissions, or agencies of the government, as well as for the conduct of audit of financial operations of public utilities and franchises;
- (2) Formulate accounting rules and regulations for government-owned or controlled corporations and self-governing boards, commissions, or agencies of the government;
- (3) Advise and assist the Chairman on matters pertaining to the audit of government-owned or controlled corporations and self-governing boards, commissions, or agencies of the government; and
- (4) Consolidate the corporate audit reports from all the regions for inclusion in the annual report of the Commission.

**Section 16. The Performance Audit Office.** The Performance Audit Office shall have the following functions:

- (1) Conduct, consistently with the exercise by the Commission of its visitorial powers as hereinafter conferred, variable scope audit of non-governmental firms subsidized by the government or government authority, or those required to pay levies or government share, those funded by donations through the government, and those for which the government has put up a counterpart fund: Provided, That such audits shall be limited to the funds or subsidies coming from the government; and
- (2) Undertake audits of the legality of government expenditures, with particular emphasis on the statutory authority governing the usage of appropriated funds.

**Section 17. The Manpower Development Office.** The Manpower Development Office shall perform the following functions:

- (1) Formulate long-range plans for a comprehensive training program for all personnel of the Commission and personnel of the agencies of government, with respect to Commission rules and regulations and audit matters;
- (2) Prepare and implement annual training programs, consistent with its long-range plans;
- (3) Develop its capability to implement training programs;
- (4) Set up and maintain a library for the Commission; and
- (5) Publish the professional journal of the Commission.

**Section 18. The Technical Service Office.** The Technical Service Office shall perform the following functions:

- (1) Develop and propose auditing systems for implementation in the government;
- (2) Render consultancy services related to the discharge of government auditing functions;

- (3) Assist in the formulation of accounting rules and regulations and in seeing to it that these are observed by agencies of government, in coordination with the Accountancy Office;
- (4) Review and evaluate contracts, and inspect and appraise infrastructure projects; and
- (5) Initiate special studies on auditing matters.

**Section 19. The Regional Offices.** Each regional office shall perform the following functions:

- (1) Exercise supervision and control over the implementation of auditing rules and regulations in any agency of the government with principal offices or place of operations within the region, including the National Assembly;
- (2) Review, analyze and consolidate local, national and corporate audit reports pertaining to the region;
- (3) Upon delegation by the Commission Proper, exercise authority on internal Commission administration on personnel, planning, financial (budgetary and accounting), and legal matters pertaining to the region; and
- (4) Perform such other related functions as may be assigned by the Chairman.

**Section 20. Auditing units; qualifications and assignment of heads.**

- (1) There shall be in each agency of the government an auditing unit which shall be provided by the audited agency with a suitable and sufficient office space together with supplies, equipment, furniture, and other necessary operating expenses for its proper maintenance, including expenses for travel and transportation.
- (2) The auditing unit shall be headed by an auditor assigned by the Commission who shall be a certified public accountant or a member of the Bar or a holder of a college degree in commerce or business administration, major in accounting.
- (3) The corresponding assignment orders issued by the Commission to such auditors and their support personnel holding core auditing positions shall be supplementary to their appointments which are without specification of station.
- (4) The Commission shall have the authority to make changes in such assignments and to effect a periodic reshuffle of heads of auditing units as well as their support personnel whenever the exigencies of the service so require. However, such changes and reshuffle shall not affect the tenure of office of the incumbents of the positions involved and shall not constitute a demotion or reduction in rank or salary, nor result in a change in status.

**Section 21. Auditing units for newly-created agencies.** The creation of every new agency shall be construed to include the establishment of an auditing unit therein, and the appropriation or allotment therefor is deemed to include the amounts necessary to provide such agency with adequate auditing services as determined by the Commission.

**Section 22. Number and compensation of auditing personnel.**

- (1) The assignment of Commission representatives and support personnel to agencies of the government shall be determined solely by the Commission.
- (2) The salaries and other forms of compensation of the personnel of the Commission shall follow a common position classification and compensation plan regardless of agency of assignment, and shall be subject to P.D. No. 985.
- (3) All officials and employees of the Commission, including its representatives and support personnel shall be paid their salaries, emoluments, and allowances directly by the Commission out of its appropriations and contributions, as provided in this Code.

**Section 23. Professionalization of audit services.** The Commission shall develop and adopt for its officials and employees a comprehensive and continuing manpower development program.

**Section 24. Appropriations and funding.**

- (1) The amount of appropriations for the annual operating expenses of the Commission, including the salaries, allowances and other emoluments of all its officials and employees in its central and regional offices as well as in the auditing units in the various national and local government agencies, including government-owned or controlled corporations, shall be included in the annual general appropriations law. The usage of these funds shall be governed by the general appropriations and other budget laws;
- (2) All government-owned or controlled corporations, including their subsidiaries, and self-governing boards, commissions, or agencies of the government shall appropriate in their respective budgets and remit to the National Treasury an amount at least equivalent to the appropriation for the salaries and allowances of the representative and staff of the Commission during the preceding fiscal year;
- (3) A maximum of one-half of one per-centum ( $\frac{1}{2}$  of 1%) of the collections from national internal revenue taxes not otherwise accruing to Special Funds or Special Accounts in the General Fund of the National Government, upon authority from the Minister (Secretary) of Finance, shall be deducted from such collections and shall be remitted to the National Treasury to cover the cost of auditing services rendered to local government units.
- (4) The amount estimated to be earned as a result of the assessments on government-owned or controlled corporations, local government units, and other agencies as provided for in this Section shall be taken into consideration in the preparation of the annual budget of the Commission, in accordance with pertinent budget laws. The General Appropriations law shall provide each year for the cost of Commission operations as may be supported by available funds, in order to meet the audit requirements of national and local government units and of government-owned or controlled corporations and other agencies covered by this Code.

## **CHAPTER 2 JURISDICTION, POWERS AND FUNCTIONS OF THE COMMISSION**

**Section 25. Statement of objectives.** In keeping with its Constitutional mandate, the Commission adheres to the following primary objectives:

- (1) To determine whether or not the fiscal responsibility that rests directly with the head of the government agency has been properly and effectively discharged;
- (2) To develop and implement a comprehensive audit program that shall encompass an examination of financial transactions, accounts, and reports, including evaluation of compliance with applicable laws and regulations;
- (3) To institute control measures through the promulgation of rules and regulations governing the receipts, disbursement, and uses of funds and property, consistent with the total economic development effort of the government;
- (4) To promulgate auditing and accounting rules and regulations so as to facilitate the keeping, and enhance the information value, of the accounts of the government;
- (5) To adopt measures calculated to hasten the full professionalization of its services;
- (6) To institute measures designed to preserve and ensure the independence of its representatives; and
- (7) To endeavor to bring its operations closer to the people by the delegation of authority through decentralization, consistent with the provisions of the new Constitution and the laws.

**Section 26. General jurisdiction.** The authority and powers of the Commission shall extend to and comprehend all matters relating to auditing procedures, systems and controls, the keeping of the general accounts of the Government, the preservation of vouchers pertaining thereto for a period of ten years, the examination and inspection of the books, records, and papers relating to those accounts; and the audit and settlement of the accounts of all persons respecting funds or property received or held by them in an accountable capacity, as well as the examination, audit, and settlement of all debts and claims of any sort due from or owing to the Government or any of its subdivisions, agencies and instrumentalities. The said jurisdiction extends to all government-owned or controlled corporations, including their subsidiaries, and other self-governing boards, commissions, or agencies of the Government, and as herein prescribed, including non-governmental entities subsidized by the government, those funded by donation through the government, those required to pay levies or government share, and those for which the government has put up a counterpart fund or those partly funded by the government.

**Section 27. Appointing power.** The Commission Proper shall appoint, subject to Civil Service Law, the officials and employees of the Commission wherever they are stationed or assigned.

**Section 28. Examining authority.** The Commission shall have authority to examine books, papers, and documents filed by individuals and corporations with, and which are in the custody of, government offices in connection with government revenue collection operations, for the sole purpose of ascertaining that all funds determined by the appropriate agencies as collectible and due the government have actually been collected, except as otherwise provided in the Internal Revenue Code of 1977.

**Section 29. Visitorial authority.**

- (1) The Commission shall have visitorial authority over non-government entities subsidized by the government, those required to pay levies or government share, those which have received counterpart funds from the government or are partly funded by donations through the government, the said authority however pertaining only to the audit of those funds or subsidies coming from or through the government.
- (2) Upon direction of the President (Prime Minister), the Commission shall likewise exercise visitorial authority over non-governmental entities whose loans are guaranteed by the Government, provided that such authority shall pertain only to the audit of the government's contingent liability.

**Section 30. Fees for audit and other services.**

- (1) The Commission shall fix and collect reasonable fees for the different services rendered to non-government entities that shall be audited in connection with their dealings with the government arising from subsidies, counterpart funding by government or where audited records become the basis for a government levy or share. Fees of this nature shall accrue to the General Fund and shall be remitted to the Treasurer of the Philippines within 10 days following completion of the audit.
- (2) Whenever the Commission contracts with any government entity, to render audit and related services beyond the normal scope of such services, the Commission is empowered to fix and collect reasonable fees. Such fees shall either be appropriated in the agency's current budget, charged against its savings, or appropriated in its succeeding year's budget. Remittance shall accrue to the General Fund and shall be made to the Treasurer of the Philippines within the time provided for in the contract of service, or in the billing rendered by the Commission.

**Section 31. Deputization of private licensed professional to assist government auditors.**

- (1) The Commission may, when the exigencies of the service so require, deputize and retain in the name of the Commission such certified public accountants and other licensed professionals not in the public service as it may deem necessary to assist government auditors in undertaking specialized audit engagements.
- (2) The deputized professionals shall be entitled to such compensation and allowances as may be stipulated, subject to pertinent rules and regulations on compensation and fees.

**Section 32. Government contracts for auditing, accounting, and related services.**

- (1) No government agency shall enter into any contract with any private person or firm for services to undertake studies and services relating to government auditing, including services to conduct, for a fee, seminars or workshops for government personnel on these topics, unless the proposed contract is first submitted to the Commission to enable it to determine if it has the resources to undertake such studies or services. The Commission may engage the services of experts from the public or private sector in the conduct of these studies.
- (2) Should the Commission decide not to undertake the study or service, it shall nonetheless have the power to review the contract in order to determine the reasonableness of its costs.



**Section 33. Prevention of irregular, unnecessary, excessive, or extravagant expenditures of funds or uses of property; power to disallow such expenditures.**

The Commission shall promulgate such auditing and accounting rules and regulations as shall prevent irregular, unnecessary, excessive, or extravagant expenditures or uses of government funds or property.

**Section 34. Settlement of accounts between agencies.** The Commission shall have the power, under such regulations as it may prescribe, to authorize and enforce the settlement of accounts subsisting between agencies of the government.

**Section 35. Collection of indebtedness due the government.** The Commission shall, through proper channels, assist in the collection and enforcement of all debts and claims, and the restitution of all funds or the replacement or payment at a reasonable price of property, found to be due the Government, or any of its subdivisions, agencies or instrumentalities, or any government-owned or controlled, corporation or self-governing board, commission or agency of the government, in the settlement and adjustment of its accounts. If any legal proceeding is necessary to that end, the Commission shall refer the case to the Solicitor General, the Government Corporate Counsel, or the legal staff of the creditor government office or agency concerned to institute such legal proceeding. The Commission shall extend full support in the litigation. All such moneys due and payable shall bear interest at the legal rate from the date of written demand by the Commission.

**Section 36. Power to compromise claims.**

- (1) When the interest of the government so requires, the Commission may compromise or release in whole or in part, any settled claim or liability to any government agency not exceeding ten thousand pesos arising out of any matter or case before it or within its jurisdiction, and with the written approval of the Prime Minister, it may likewise compromise or release any similar claim or liability not exceeding one hundred thousand pesos. In case the claim or liability exceeds one hundred thousand pesos, the application for relief therefrom shall be submitted, through the Commission and the Prime Minister, with their recommendations, to the National Assembly.
- (2) The respective governing bodies of government-owned or controlled corporations, and self-governing boards, commissions, or agencies of the government shall have the exclusive power to compromise or release any similar claim or liability when expressly authorized by their charters and if in their judgment, the interest of their respective corporations or agencies so requires. When the charters do not so provide, the power to compromise shall be exercised by the Commission in accordance with the preceding paragraph.
- (3) The Commission may, in the interest of the government, authorize the charging or crediting to an appropriate account in the National Treasury, small discrepancies (overage or shortage) in the remittances to and disbursements of the National Treasury, subject to the rules and regulations as it may prescribe.

**Section 37. Retention of money for satisfaction of indebtedness to government.** When any person is indebted to any government agency, the Commission may direct the proper officer to withhold the payment of any money due such person or his estate to be applied in satisfaction of the indebtedness.

**Section 38. Authority to examine accounts of public utilities.**

- (1) The Commission shall examine and audit books, records, and accounts of public utilities in connection with the fixing of rates of every nature, or in relation to the proceedings of the proper regulatory agencies, for purposes of determining franchise taxes.
- (2) During the examination and audit, the public utility concerned shall produce all the reports, records, books of accounts and such other papers as may be required. The Commission shall have the power to examine under oath any official or employee of the said public utility.
- (3) Any public utility refusing to allow an examination and audit of its books of accounts and pertinent records, or offering unnecessary obstruction to the examination and audit, or found guilty of concealing any material information concerning its financial status shall be subject to the penalties provided by law.

**Section 39. Submission of papers relative to government obligations.**

- (1) The Commission shall have the power, for purposes of inspection, to require the submission of the original of any order, deed, contract, or other document under which any collection of, or payment from, government funds may be made, together with any certificate, receipt, or other evidence in connection therewith. If an authenticated copy is needed for record purposes, the copy shall upon demand be furnished.
- (2) In the case of deeds to property purchased by any government agency, the Commission shall require a certificate of title entered in favor of the government or other evidence satisfactory to it that the title is in the government.
- (3) It shall be the duty of the officials or employees concerned, including those in non-government entities under audit, or affected in the audit of government and non-government entities, to comply promptly with these requirements. Failure or refusal to do so without justifiable cause shall constitute a ground for administrative disciplinary action as well as for disallowing permanently a claim under examination, assessing additional levy or government share, or withholding or withdrawing government funding or donations through the government.

**Section 40. Investigatory and inquisitorial powers; power to punish for contempt.**

- (1) The Chairman or any Commissioner of the Commission, the central office managers, the regional directors, the auditors of any government agency, and any other official or employee of the Commission specially deputed in writing for the purpose by the Chairman shall, in compliance with the requirement of due process, have the power to summon the parties to a case brought before the Commission for resolution, issue subpoena and subpoena duces tecum, administer oaths, and otherwise take testimony in any investigation or inquiry on any matter within the jurisdiction of the Commission.
- (2) The Commission shall have the power to punish contempts provided for in the Rules of Court, under the same procedure and with the same penalties provided therein. Any violation of any final and executory decision, order or ruling of the Commission shall constitute contempt of the Commission.

**Section 41. Annual report of the Commission.**

- (1) The Commission shall submit to the President, the Prime Minister, and the National Assembly not later than the last day of September of each year an annual report of the financial condition and results of operation of all agencies of the government which shall include recommendations of measures necessary to improve the efficiency and effectiveness of these agencies.
- (2) To carry out the purposes of this section, the chief accountant or the official in charge of keeping the accounts of a government agency shall submit to the Commission year-end trial balances and such other supporting or subsidiary statements as may be required by the Commission not later than the fourteenth day of February. Trial balances returned by the Commission for revision due to non-compliance with accounting rules and regulations, shall be resubmitted within three days after the date of receipt by the official concerned.
- (3) Failure on the part of any official or employee to comply with the provisions of the immediately preceding paragraph shall cause the automatic suspension of the payment of his salary and other emoluments until he shall have complied there with. The violation of these provisions for at least three times shall subject the offender to administrative disciplinary action.

**Section 42. Statement of monthly receipts and disbursements.** The Commission shall forward to the Minister (Secretary) of Finance, as soon as practicable and within sixty days after the expiration of each month, a statement of all receipts of the national government of whatever class, and payments of moneys made on warrants or otherwise during the preceding month.

**Section 43. Powers, functions, and duties of auditors as representatives of the Commission.**

- (1) The auditors shall exercise such powers and functions as may be authorized by the Commission in the examination, audit and settlement of the accounts, funds, financial transactions, and resources of the agencies under their respective audit jurisdiction.
- (2) A report of audit for each calendar year shall be submitted on the last working day of February following the close of the year, by the head of each auditing unit through the Commission to the head or the governing body of the agency concerned, and copies thereof shall be furnished the government officials concerned or authorized to receive them. Subject to such rules and regulations as the Commission may prescribe from time to time, the report shall set forth the scope of audit and shall include a statement of financial condition; a statement of surplus or deficit analysis; a statement of operations; a statement of changes in financial position; and such comments and information as may be necessary together with such recommendations with respect thereto as may be advisable, including a report of any impairment of capital noted in the audit. It shall also show specifically any program, expenditures, or other financial transaction or undertaking observed in the course of audit which in the opinion of the auditor has been carried out or made without authority of law. The auditor shall render such other reports as the Commission may require.
- (3) In the performance of their respective audit functions as herein specified, the auditors shall employ such auditing procedures and techniques as are determined by the Commission under regulations that it may promulgate.

- (4) The auditors in all auditing units shall have the custody, and be responsible for the safekeeping and preservation of paid expense vouchers, journal vouchers, stubs of treasury warrants or checks, reports of collections and disbursements and similar documents, together with their respective supporting papers, under regulations of the Commission.

**Section 44. Check and audit of property or supplies.** The auditor shall from time to time conduct a careful and thorough check and audit of all property or supplies of the agency to which he is assigned. Such check and audit shall not be confined to a mere inspection and examination of the pertinent vouchers, inventories, and other papers but shall include an ocular verification of the existence and condition of the property or supplies. The recommendation of the auditor shall be embodied in the proper report.

**Section 45. Annual audit and work program.** Each auditor who is the head of an auditing unit shall develop and devise an annual work program and the necessary audit program for his unit in accordance with regulations of the Commission.

**Section 46. Seizure of office by auditor.**

- (1) The books, accounts, papers and cash of any local treasurer or other accountable officer shall at all times be open to the inspection of the Commission or its duly authorized representative.
- (2) In case an examination of the accounts of a local treasurer or other accountable discloses a shortage in cash which should be on hand, it shall be the duty of the examining officer to seize the office and its contents, notify the Commission and the local chief executive and thereupon immediately take full possession of the office and its contents, close and render his accounts to the date of taking possession, and temporarily continue the public business of such office.
- (3) The auditor who takes possession of the office of the local treasurer under this section shall ipso facto supersede the local treasurer until the officer involved is restored, or other provision has been lawfully made for filling the office.

**Section 47. Constructive distraint of property of accountable officer.**

- (1) Upon discovery in audit of a shortage in the accounts of any accountable officer and upon a finding of a prima facie case of malversation of public funds or property against him, in order to safeguard the interest of the Government, the Commission may place under constructive distraint personal property of the accountable officer concerned where there is reasonable ground to believe that the said officer is retiring from the government service or intends to leave the Philippines or remove his property therefrom or hide or conceal his property.

The constructive distraint shall be effected by requiring the accountable officer concerned or any other person having possession or control of the property to accomplish a receipt, in the form prescribed by the Commission, covering the property distrained and obligate himself to preserve the same intact and unaltered and not to dispose of it in any manner whatever without the express authority of the Commission.

- (2) In case the said accountable officer or other person having the possession and control of the property sought to be placed under constructive distraint refuses or fails to accomplish the receipt herein referred to, the representative of the Commission effecting the constructive distraint shall proceed to prepare a list of such property and in the presence of two witnesses leave a copy thereof in the premises where the property distrained is located, after which the said property shall be deemed to have been placed under the constructive distraint.

### **CHAPTER 3 DECISIONS OF THE COMMISSION**

**Section 48. Appeal from decision of auditors.** Any person aggrieved by the decision of an auditor of any government agency in the settlement of an account or claim may within six months from receipt of a copy of the decision appeal in writing to the Commission.

**Section 49. Period for rendering decisions of the Commission.** The Commission shall decide any case brought before it within sixty days from the date of its submission for resolution. If the account or claim involved in the case needs reference to other persons or offices, or to a party interested, the period shall be counted from the time the last comment necessary to a proper decision is received by it.

**Section 50. Appeal from decisions of the Commission.** The party aggrieved by any decision, order, or ruling of the Commission may within thirty days from his receipt of a copy thereof appeal on **certiorari** to the Supreme Court in the manner provided by law and the Rules of Court. When the decision, order, or ruling adversely affects the interest of any government agency, the appeal may be taken by the proper head of that agency.

**Section 51. Finality of decisions of the Commission or any auditor.** A decision of the Commission or of any auditor upon any matter within its or his jurisdiction, if not appealed as herein provided, shall be final and executory.

**Section 52. Opening and revision of settled accounts.**

- (1) At any time before the expiration of three years after the settlement of any account by an auditor, the Commission may **motu proprio** review and revise the account or settlement and certify a new balance. For the purpose, it may require any account, vouchers, or other papers connected with the matter to be forwarded to it.
- (2) When any settled account appears to be tainted with fraud, collusion, or error of calculation, or when new and material evidence is discovered, the Commission may, within three years after the original settlement, open the account, and after a reasonable time for reply or appearance of the party concerned, may certify thereon a new balance. An auditor may exercise the same power with respect to settled accounts pertaining to the agencies under his audit jurisdiction.
- (3) Accounts once finally settled shall in no case be opened or reviewed except as herein provided.

**TITLE II  
GOVERNMENT AUDITING**

**CHAPTER 1  
BASIC POLICIES AND STANDARDS**

**Section 53. Definition of government auditing.** Government auditing is the analytical and systematic examination and verification of financial transactions, operations, accounts, and reports of any government agency for the purpose of determining their accuracy, integrity, and authenticity, and satisfying the requirements of law, rules and regulations.

The conduct of government audit shall conform with the auditing standards set forth in the following three sections.

**Section 54. General standards.**

- (1) The audit shall be performed by a person possessed with adequate technical training and proficiency as auditor.
- (2) In all matters relating to the audit work, the auditor shall maintain complete independence, impartiality and objectivity and shall avoid any possible compromise of his independence or any act which may create a presumption of lack of independence or the possibility of undue influence in the performance of his duties.
- (3) The auditor shall exercise due professional care and be guided by applicable laws, regulations and the generally accepted principles of accounting in the performance of the audit work as well as in the preparation of audit and financial reports.

**Section 55. Examination and evaluation standards.**

- (1) The audit work shall be adequately planned and assistants shall be properly supervised.
- (2) A review shall be made of compliance with legal and regulatory requirements.
- (3) An evaluation shall be made of the system of internal control and related administrative practices to determine the extent they can be relied upon to ensure compliance with laws and regulations and to provide for efficient, economical and effective operations.
- (4) The auditor shall obtain through inspections, observation, inquiries, confirmation and other techniques, sufficient competent evidential matter to afford himself a reasonable basis for his opinions, judgments, conclusions, and recommendations.

**Section 56. Reporting standards.**

- (1) Audit reports shall be dated, signed manually and shall be issued and distributed in the manner provided by regulations of the Commission.

- (2) Audit reports shall contain basically the transmittal statement, scope and objectives of the audit and time period examined highlights, financial information, findings, recommendations, and conclusions as well as other data that may provide the management of the audited agency with the necessary input for the decision-making process. Tables, charts, graphs and other data to detail the conditions and facts shall be used in proper cases.
- (3) Audit reports shall meet the following reporting criteria:
  - (a) Factual matter must be accurately, completely and fairly presented.
  - (b) Findings must be presented objectively and in language as clear and simple as the subject matter permits.
  - (c) Findings must be adequately supported by evidence in the audit working papers.
  - (d) Reports must be concise yet complete enough to be readily understood by the users.
  - (e) Information on underlying causes of problems must be included so as to assist in implementing or devising corrective actions.
- (4) Audit reports shall:
  - (a) Put primary emphasis on improvement; critical comments shall be presented in balanced perspective, recognizing unusual difficulties or circumstances faced by officials concerned.
  - (b) Identify and explain issues and questions needing further study and consideration by the auditor, the agency, or others.
  - (c) Include recognition of note worthy accomplishments particularly when management improvements in one area or activity may be applied elsewhere.
  - (d) Include recognition of the views of responsible officials of the agency audited on the auditor's findings, conclusions and recommendations. Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with officials. When possible, without undue delay, their view should be obtained in writing and objectively considered and presented in the final report.
  - (e) State whether any significant pertinent information has been omitted because it is deemed confidential. The nature of such information should be described and the law or other basis under which it is withheld should be stated.
- (5) Audit reports accompanying financial reports shall:
  - (a) State whether the audit was made in accordance with generally accepted auditing standards, and shall disclose the omission of any auditing procedure generally recognized as normal or deemed necessary by him under the circumstances of a particular case, as well as the reasons for the omission. Nothing in this section, however, shall be construed to imply authority for the omission for any procedure which auditors would ordinarily employ in the course of audit.

- (b) Express the auditor's opinion with respect to –
  - i) whether the financial reports have been presented fairly in accordance with applicable laws and regulations and the generally accepted accounting principles applied on a consistent basis
  - ii) material changes in accounting principles and practices and their effect on the financial reports.
- (c) Identify any matter to which he takes exception and shall specifically and clearly state his exceptions together with a statement on the effect thereof, to the extent practicable, on the related financial report.
- (d) Contain appropriate supplementary explanatory information about the contents of the financial report as may be necessary for full and informative disclosure about the financial operations of the agency audited.
- (e) Explain violations of legal or other regulatory requirements, including instances of non-compliance.

## **CHAPTER 2 AUDIT OBJECTIVES**

**Section 57. Determination of audit procedures.** In the determination of auditing procedures and techniques to be followed and the extent of examination of vouchers and other documents by government auditors, the Commission shall give due regard to generally accepted principles of auditing and accounting organizations and systems, including consideration of the effectiveness of internal control and related administrative practices of the audited agencies.

**Section 58. Audit of assets.** The examination and audit of assets shall be performed with a view to ascertaining their existence, ownership, valuation and encumbrances as well as the propriety of items composing the respective asset accounts, determining their agreement with records; proving the accuracy of such records; ascertaining if the assets were utilized economically, efficiently and effectively; and evaluating the adequacy of controls over the accounts.

**Section 59. Audit of liabilities.** In his audit of liabilities, the auditor shall seek to established that all obligations of the agency have been accurately recorded; only bonafide obligations of the agency have been included; the obligations incurred are properly authorized; all provisions of trust indentures or mortgages are complied with; and mortgages and other encumbrances are fully disclosed.

**Section 60. Audit of revenue accounts.** The examination and audit of revenue accounts shall be performed with a view to ascertaining that all earned revenues have been duly recorded; and all recorded revenues have been earned and appropriate classifications of revenues have been consistently followed.



**Section 61. Audit of expense accounts.** The examination of expense accounts shall be undertaken to ascertain that all expense incurred have been duly authorized; adequately funded and documented; properly recorded; all recorded expenses have been actually incurred; and the classifications of expenses are appropriate and have been consistently followed.

**Section 62. Audit of surplus or networth.** The audit of surplus or networth shall seek to determine the nature of the surplus, whether current or invested surplus; the amount of current surplus available to cover appropriations for the operational expenses of the government; the propriety of the ledger accounts and balance sheet presentation account; and the proper authority and recording of changes in the capital structure made during the period under audit.

### **CHAPTER 3 RECEIPT AND DISPOSITION OF FUNDS AND PROPERTY**

**Section 63. Accounting for moneys and property received by public officials.** Except as may otherwise be specifically provided by law or competent authority all moneys and property officially received by a public officer in any capacity or upon any occasion must be accounted for as government funds and government property. Government property shall be taken up in the books of the agency concerned at acquisition cost or an appraised value.

**Section 64. Designation of collecting officers for government agencies.** The head of an agency may designate such number of collecting officers or agents as may be deemed necessary. They shall render reports of their collections, under the regulations of the Commission, to be submitted promptly to the auditor concerned who shall conduct the necessary examination and audit within thirty days from receipt thereof.

**Section 65. Accrual of income to unappropriated surplus of the General Fund.**

- (1) Unless otherwise specifically provided by law, all income accruing to the agencies by virtue of the provisions of law, orders and regulations shall be deposited in the National Treasury or in any duly authorized government depository, and shall accrue to the unappropriated surplus of the General Fund of the Government.
- (2) Amounts received in trust and from business-type activities of government may be separately recorded and disbursed in accordance with such rules and regulations as may be determined by a Permanent Committee composed of the Secretary (Minister) of Finance as Chairman, and the Commissioner of the Budget and the Chairman, Commission on Audit, as members.

**Section 66. Special, Fiduciary and Trust Funds.** Receipts shall be recorded as income of Special, Fiduciary or Trust Funds or Funds other than the General Fund only when authorized by law as implemented by rules and regulations issued by the Permanent Committee created in the preceding section.

**Section 67. Warrants and checks receivables in payment for taxes or other indebtedness to the government.**

- (1) An officer charged with the collection of revenue or the receiving of moneys payable to the government shall accept payment for taxes, dues or other indebtedness to the government in the form of checks and warrants issued in payment of government obligations, upon proper indorsement and identification of the payee or

indorsee. Checks drawn in favor of the government in payment of any such indebtedness shall likewise be accepted by the officer concerned.

- (2) When a check drawn in favor of the government is not accepted by the drawee bank for any reason, the drawer shall continue to be liable for the sum due and all penalties resulting from delayed payment. Where the reason for non-acceptance by the drawee bank is insufficiency of funds, the drawer shall be criminally liable thereof.
- (3) At no instance should money in the hands of the collecting officer be utilized for the purpose of encashing private checks.

**Section 68. Issuance of official receipt.**

- (1) No payment of any nature shall be received by a collecting officer without immediately issuing an official receipt in acknowledgment thereof. The receipt may be in the form of postage, internal revenue or documentary stamps and the like, officially numbered receipts, subject to proper custody, accountability, and audit.
- (2) Where mechanical devices are used to acknowledge cash receipts, the Commission may approve, upon request, exemption from the use of accountable forms.

**Section 69. Deposit of moneys in the treasury.**

- (1) Public officers authorized to receive and collect moneys arising from taxes, revenues, or receipts of any kind shall remit or deposit intact the full amounts so received and collected by them to the treasury of the agency concerned and credited to the particular accounts to which the said moneys belong. The amount of the collections ultimately payable to other agencies of the government shall thereafter be remitted to the respective treasuries of these agencies, under regulations which the Commission and the Department (Ministry) of Finance shall prescribe.
- (2) When the exigencies of the service so require, under such rules and regulations as the Commission and the Department (Ministry) of Finance may prescribe, postmasters may be authorized to use their collections to pay money orders, telegraphic transfers and withdrawals from the proper depository bank whenever their cash advance funds for the purpose have been exhausted. The amount of collections so used shall be restored upon receipt by the postmaster of the replenishment of his cash advance.
- (3) Pending remittance to the proper treasury, collecting officers may temporarily deposit collections received by them with any treasury, subject to regulations of the Commission.
- (4) The respective treasuries of these agencies shall in turn deposit with the proper government depository the full amount of the collections not later than the following banking day.

**Section 70. Acknowledgement of receipt for funds.** Under such rules and regulations as the Commission and the Department (Ministry) of Finance may prescribe, the Treasurer of the Philippines and all authorized depository banks shall acknowledge receipt of all funds received by them, the acknowledgement bearing the date of actual remittance or deposit and indicating from whom and on what account it was received.

**Section 71. Creditors' unclaimed balances.**

- (1) There shall be maintained in the books of the Commission an account designated "Creditors' Unclaimed Balances" to the credit of which shall be deposited all moneys for which there is no present rightful claimant. Money accruing to this account shall be held exclusively for the payment of pertinent obligation against it, when certified by the Commission, not in excess of the respective amounts which accrued to that account by reason of these obligations.
- (2) After remaining unclaimed for a period of ten years, money in this account shall revert as treasury funds, to the agency that made the deposit, or, in the absence thereof to the national government.

**Section 72. Shipment of government funds or property by carrier; notation of evidence of loss.** When government funds or property are transported from one place to another by carrier, it shall be the duty of the consignee or his representative to make full notation of any evidence of loss, shortage, or damage, upon the bill of lading or receipt before accomplishing it.

**Section 73. Credit for loss occurring in transit or due to casualty or force majeure.**

- (1) When a loss of government funds or property occurs while they are in transit or the loss is caused by fire, theft, or other casualty or force majeure, the officer accountable therefor or having custody thereof shall immediately notify the Commission or the auditor concerned and, within thirty days or such longer period as the Commission or auditor may in the particular case allow, shall present his application for relief, with the available supporting evidence. Whenever warranted by the evidence credit for the loss shall be allowed. An officer who fails to comply with this requirement shall not be relieved of liability or allowed credit for any loss in the settlement of his accounts.
- (2) The Commission shall promulgate rules and regulations to implement the provisions of this section.

**Section 74. Monthly reports of depositories to agency head.** At the close of each month, depositories shall report to the agency head, in such form as he may direct, the condition of the agency account standing on their books. The head of the agency shall see to it that a reconciliation is made between the balance shown in the reports and the balance found in the books of the agency.

**Section 75. Transfer of funds from one officer to another.** Transfer of government funds from one officer to another shall, except as allowed by law or regulation, be made only upon prior direction or authorization of the Commission or its representative.

**Section 76. Transfer of property between government agencies.** Any government property that is no longer serviceable or needed by the agency to which it belongs may be transferred without cost, or at an appraised value, to other agencies of the government upon authority of the respective heads of agencies in the national government, or of the governing bodies of government-owned or controlled corporations, other self-governing boards or commissions of the government, or of the local legislative bodies for local government units concerned.

**Section 77. Invoice and receipt upon transfer of funds or property.** When government funds or property are transferred from one accountable officer to another, or from an outgoing officer to his successor, it shall be done upon properly itemized invoice and receipt which shall invariably support the clearance to be issued to the relieved or out-going officer, subject to regulations of the Commission.

**Section 78. Disposition of funds or property held by deceased, incapacitated, absconding, or superseded accountable officer.**

- (1) When an officer accountable for government funds or property absconds with them, dies, or becomes incapacitated in the performance of his duties, the proper agency head shall designate a custodian to take charge of the funds or property until a successor shall have been appointed and qualified. The agency head may appoint a committee to count the cash and take an inventory of the property for which the officer was accountable and to determine the responsibility for any shortage therein. One copy of the inventory and of the report of the Committee duly certified shall be filed with the Commission but the findings of the committee shall not be conclusive until approved by the Commission or its duly authorized representative.
- (2) If the absconding, deceased, incapacitated, or superseded officer is accountable for funds or property of a province or city, the custodian and committee shall be designated by the Minister (Secretary) of Finance, and if accountable for municipal or barrio (barangay) funds or property, by the provincial treasurer. In all other respects, the above-prescribed proceeding shall be observed.
- (3) If the absconding, deceased, incapacitated, or superseded officer is responsible to another who is accountable, the latter may himself designate the committee or take other lawful measures for the protection of his interest.

**Section 79. Destruction or sale of unserviceable property.** When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefor, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee on award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, after advertising by printed notice in the Official Gazette, or for not less than three consecutive days in any newspaper of general circulation, or where the value of the property does not warrant the expense of publication, by notices posted for a like period in at least three public places in the locality where the property is to be sold. In the event that the public auction fails, the property may be sold at a private sale at such price as may be fixed by the same committee or body concerned and approved by the Commission.

**Section 80. Final report of accountable officers.**

- (1) An accountable officer, upon ceasing to act in his official capacity as such, shall submit to the auditor of the agency concerned a report of his accountability.
- (2) Any remaining balance of such accountability shall be deposited in the proper treasury without unnecessary delay.

**Section 81. Auditor's certificate of balance.** Auditor's of all government agencies shall certify the balances arising in the accounts settled by them to the Commission and to the proper treasurer, collecting officer, or disbursing officer, in such form as the Commission may prescribe, within sixty days from the date of receipt of those accounts from the treasurer, collecting officer, or disbursing officer concerned.

**Section 82. Auditor's notice to accountable officer of balance shown upon settlement.** The auditor concerned shall, at convenient intervals, send a written notice under a certificate of settlement to each officer whose accounts have been audited and settled in whole or in part by him, stating the balances found due thereon and certified, and the charges or differences arising from the settlement by reason of disallowances, charges, or suspensions. The certificate shall be properly itemized and shall state the reasons for disallowance, charge, or suspension of credit. A charge of suspension which is not satisfactorily explained within ninety days after receipt of the certificate or notice by the accountable officer concerned shall become a disallowance, unless the Commission or auditor concerned shall, in writing and for good cause shown, extend the time for answer beyond ninety days.

**Section 83. Transcript of auditor's record as evidence of liability.** In any criminal or civil proceeding against an officer for the embezzlement or misappropriation of government funds or property, or to recover an amount due the government from an accountable officer, it shall be sufficient, for the purpose of showing a balance against him, to produce the working papers of the auditor concerned. A showing in this manner of any balance against the officer shall be **prima facie** evidence of the misappropriation of the funds or property unaccounted for or of civil liability of the officer as the case may be. The existence or contents of bonds, contracts, or other papers relating to or connected with the settlement of any account may be proved by the production of certified copies thereof but the court may require the production of the original when this appears to be necessary for the attainment of justice.

#### **CHAPTER 4 APPLICATION OF APPROPRIATED FUNDS**

**Section 84. Disbursement of government funds.**

- (1) Revenue funds shall not be paid out of any public treasury or depository except in pursuance of an appropriation law or other specific statutory authority.
- (2) Trust funds shall not be paid out of any public treasury or depository except in fulfillment of the purpose for which the trust was created or funds received, and upon authorization of the legislative body or head of any other agency of the government having control thereof, and subject to pertinent budget law, rules and regulations.
- (3) National revenue and trust funds shall not be withdrawn from the National Treasury except upon warrant or other instruments of withdrawal approved by the Minister (Secretary) of Finance as recommended by the Treasurer of the Philippines.
- (4) Temporary investment of investible cash in the National Treasury in any securities issued by the National Government and its political subdivisions and instrumentalities including government-owned or controlled corporations as authorized by the Secretary (Minister) of Finance, shall not be construed as disbursements of funds.

**Section 85. Appropriation before entering into contract.**

- (1) No contract involving the expenditure of public funds shall be entered into unless there is an appropriation therefor, the unexpended balance of which, free of other obligations, is sufficient to cover the proposed expenditure.
- (2) Notwithstanding this provision, contracts for the procurement of supplies and materials to be carried in stock may be entered into under regulations of the Commission provided that when issued, the supplies and materials shall be charged to the proper appropriation account.

**Section 86. Certificate showing appropriation to meet contract.** Except in the case of a contract for personal service, for supplies for current consumption or to be carried in stock not exceeding the estimated consumption for three months, or banking transactions of government-owned or controlled banks, no contract involving the expenditure of public funds by any government agency shall be entered into or authorized unless the proper accounting official of the agency concerned shall have certified to the officer entering into the obligation that funds have been duly appropriated for that the amount necessary to cover the proposed contract for the current fiscal year is available for expenditure on account thereof, subject to verification by the auditor concerned. The certificate, signed by the proper accounting official and the auditor who verified it, shall be attached to and become an integral part of the proposed contract, and the sum so certified shall not thereafter be available for expenditure for any other purpose until the obligation of the government agency concerned under the contract is fully extinguished.

**Section 87. Void contract and liability of officer.** Any contract entered into contrary to the requirements of the two immediately preceding sections shall be void, and the officer or officers entering into the contract shall be liable to the government or other contracting party for any consequent damage to the same extent as if the transaction had been wholly between private parties.

**Section 88. Prohibition against advance payment on government contracts.**

- (1) Except with the prior approval of the President (Prime Minister) the government shall not be obliged to make an advance payment for services not yet rendered or for supplies and materials not yet delivered under any contract therefor. No payment, partial or final, shall be made on any such contract except upon a certification by the head of the agency concerned to the effect that he services or supplies and materials have been rendered or delivered in accordance with the terms of the contract and have been duly inspected and accepted.
- (2) Notwithstanding the foregoing paragraph, any government agency, with the approval of the proper department head, may furnish supplies and materials to any party who has a contract with that agency if the supplies and materials are needed in the performance of the services being contracted for and the value thereof does not exceed in any one month ten percent of the value of the services already rendered, due and unsettled as computed by the agency concerned.

**Section 89. Limitations on cash advance.** No cash advance shall be given unless for a legally authorized specific purpose. A cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served. No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.

**Section 90. Payment of rewards.** When a reward becomes payable by authority of law for information given relative to any offense or for any act done in connection with the apprehension of the offender, the reward shall, in the absence of special provisions, be paid in such manner as shall be prescribed by executive order. The final determination by the proper administrative authority pursuant to law or any such order, as to whether or not the persons concerned are entitled to any reward and the amount thereof, shall be conclusive upon the executive agencies concerned as regards the liability of the government.

**Section 91. Payments to creditors.** Payments to creditors shall be made only upon the specific approval of the head of the agency concerned or his duly authorized representative, or if there be no such officer, upon the approval of the department head endorsed upon the warrant or check or voucher effecting the payment

**Section 92. Persons authorized to draw warrants or checks for payment out of government funds.**

- (1) Warrants upon the National Treasury or checks drawn against duly authorized bank accounts shall be drawn by the agency head having control of the appropriation or fund against which the warrants or checks is chargeable, or by such subordinate officer as shall be designated for that duty by the said agency head, who shall all be duly deputized for the purpose by the Treasurer of the Philippines. Copies of the designation shall be furnished the Treasurer of the Philippines and the representative of the Commission. Notice shall likewise be given to the Treasurer of the Philippines and the Commission when the designation is revoked. No member of the accounting unit or the internal control unit of the agency may be designated to perform the duty.
- (2) Warrants chargeable to national appropriations or funds not under the control of an agency shall be drawn by such officer as shall be specified by law, or, in the absence of that officer, by an officer designated by the President (Prime Minister).

**Section 93. To whom warrants or checks payable.** Warrants chargeable to revenue or trust funds of the national government or checks drawn against the treasury Checking Account for Agencies maintained with any government depository shall be made payable either directly to the creditor to whom the money is due or to a disbursing officer for official disbursement.

**Section 94. Countersigning of warrants or checks by auditor.** No warrant or check shall be paid by the Treasurer of the Philippines, local treasurer, or any government depository unless it is countersigned by a duly authorized official of the Commission. When, in the opinion of the Commission, the interest of the service so requires, the warrant or check may be paid without the countersignature under such rules and regulations as it may prescribe from time to time.

**Section 95. Treasurer's responsibility for indorsements.** The Treasurer of the Philippines shall, within three years from the date of payment by him, be responsible for the indorsements on all warrants and checks and shall retain them in his custody, after which they shall be disposed of under pertinent regulations; Provided, that they are not needed for pending civil, criminal or administrative proceedings.

**Section 96. Payment of lost or fraudulently encashed treasury warrants or checks.** When any check or warrant is lost, stolen or destroyed, the issuing officer may issue a duplicate check or warrant which shall be paid under regulations of the Commission in regard to issuance and payment and upon the execution of a bond to indemnify the issuing agency in such amount and with such security as the Commission may require.

Treasury warrant or check encashed under forged or fraudulent indorsement shall be replaced by the Treasurer of the Philippines even before the recovery of the equivalent amount under rules and regulations that the Commission and the Department (Ministry) of Finance shall prescribe.

The clearing or payment of treasury warrant and check paid by bank or other holder in due course and subsequently lost may be allowed under regulations of the Commission and the Department (Ministry) of Finance.

**Section 97. Disposition of stale warrants or checks.**

- (1) A treasury warrant or check which remains outstanding after two years from date of its issue shall not be paid by the Treasurer of the Philippines or by any duly authorized depository. The issuing agency shall take up in its books of accounts the amount of this warrant or check as surplus adjustment of the fund against which it was previously charged. Upon presentation of a stale warrant or check, the issuing agency shall cancel it and issue to the payee a substitute warrant or check in lieu thereof.
- (2) Such sum as may be necessary to meet the obligation arising out of the issuance of substitute warrants or checks chargeable against the general fund shall be charged to the current year's General Appropriations law, subject to pertinent budget rules and regulations. Substitute warrants or checks payable from funds other than the general fund shall be paid from the appropriate funds.

**Section 98. Reversion of unliquidated balances of accounts payable.** The Commission, upon notice to the head of agency concerned, may revert to the unappropriated surplus of the general fund of the national government, any unliquidated balance of accounts payable in the books of the national government, which has been outstanding for two years or more and against which no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts on record. This section shall not apply to unliquidated balances of accounts payable in trust funds as long as the purposes for which the funds were created have not been accomplished.

**Section 99. Transfer of unexpended balances to the general fund.** The Commission may transfer at any time, from moneys appropriated for a specific purpose, to the unappropriated general fund any surplus balance standing to the credit of any appropriation or fund when the officer having administrative control thereof certifies to the Commission that there is a surplus in excess of the requirements, or that the work or purpose for which the appropriation was made has been completed, indefinitely postponed or abandoned, and that there is no outstanding obligation to be paid therefrom.

**Section 100. Reports of disbursing officers in a government agency.** Disbursing officers in any government agency shall render monthly reports of their transactions pursuant to regulations of the Commission to be submitted not later than the fifth day of the ensuing month to the auditor concerned who shall conduct the necessary examination and audit within thirty days from receipt thereof.



**CHAPTER 5  
ACCOUNTABILITY AND RESPONSIBILITY  
FOR GOVERNMENT FUNDS AND PROPERTY**

**Section 101. Accountable officers; bond requirements.**

- (1) Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law.
- (2) Every accountable officer shall be properly bonded in accordance with law.

**Section 102. Primary and secondary responsibility.**

- (1) The head of any agency of the government is immediately and primarily responsible for all government funds and property pertaining to his agency.
- (2) Persons entrusted with the possession or custody of the funds or property under the agency head shall be immediately responsible to him without prejudice to the liability of either party to the government.

**Section 103. General liability for unlawful expenditures.** Expenditures of government funds or uses of government property in violation of law or regulations shall be a personal liability of the official or employee found to be directly responsible therefor.

**Section 104. Records and reports required by primarily responsible officers.** The head of any agency or instrumentality of the national government or any government-owned or controlled corporation and any other self-governing board or commission of the government shall exercise the diligence of a good father of a family in supervising accountable officers under his control to prevent the incurrence of loss of government funds or property, otherwise he shall be jointly and solidarily liable with the person primarily accountable therefor. The treasurer of the local government unit shall likewise exercise the same degree of supervision over accountable officers under his supervision, otherwise he shall be jointly and solidarily liable with them for the loss of government funds or property under their control.

**Section 105. Measure of liability of accountable officers.**

- (1) Every officer accountable for government property shall be liable for its money value in case of improper or unauthorized use or misapplication thereof, by himself or any person for whose acts he may be responsible. We shall likewise be liable for all losses, damages, or deterioration occasioned by negligence in the keeping or use of the property, whether or not it be at the time in his actual custody.
- (2) Every officer accountable for government funds shall be liable for all losses resulting from the unlawful deposit, use, or application thereof and for all losses attributable to negligence in the keeping of the funds.

**Section 106. Liability for acts done by direction of superior officer.** No accountable officer shall be relieved from liability by reason of his having acted under the direction of a superior officer in paying out, applying, or disposing of the funds or property with which he is chargeable, unless prior to that act, he notified the superior officer in writing of the illegality of the payment, application, or disposition. The officer directing any illegal payment or disposition of the funds or property shall be primarily liable for the loss, while the accountable officer who fails to serve the required notice shall be secondarily liable.

**Section 107. Time and mode of rendering account.** In the absence of specific provision of law, all accountable officers shall render their accounts, submit their vouchers, and make deposits of money collected or held by them at such times and in such manner as shall be prescribed in the regulations of the Commission.

**Section 108. Prohibition against pecuniary interest.** No accountable or responsible officer shall be pecuniary interested, directly or indirectly, in any contract or transaction of the agency in which he is such an officer.

### **TITLE III GOVERNMENT ACCOUNTING**

#### **CHAPTER 1 BASIC PRINCIPLES AND OBJECTIVES**

**Section 109. Definition.** Government accounting encompasses the processes of analyzing recording, classifying, summarizing and communicating all transactions involving the receipt and disposition of government funds and property, and interpreting the results thereof.

**Section 110. Objectives of government accounting.** Government accounting shall aim to (1) produce information concerning past operations and present conditions; (2) provide a basis for guidance for future operations; (3) provide for control of the acts of public bodies and officers in the receipt, disposition and utilization of funds and property; and (4) report on the financial position and the results of operations of government agencies for the information of all persons concerned.

#### **CHAPTER 2 ACCOUNTS AND ACCOUNTING**

**Section 111. Keeping of accounts.**

- (1) The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.
- (2) The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.

**Section 112. Recording of financial transactions.** Each government agency shall record its financial transactions and operations conformably with generally accepted accounting principles and in accordance with pertinent laws and regulations.

**Section 113. Chart of accounts.** The chart of accounts for government agencies shall be prescribed by the Commission and shall be so designed as to permit agency heads to review their activities according to selected areas of responsibility; allow for a clearer definition of obligation accounting leading to more precise budgetary control; provide for a wider range of analytical information designed for use in management audit or legislative review; furnish information regarding the production of income and the investment in capital items which is of value in fiscal and economic planning; enable tighter accounting control to be exercised over agencies' financial relationship with the Treasury; permit a more simplified preparation of trial balances and a simpler and more orderly process of national consolidation; and facilitate the application of mechanized accounting procedures for more effective protection against error and irregularity and yielding economies in operation.

**Section 114. The general ledger.**

- (1) The government accounting system shall be on a double entry basis with a general ledger in which all financial transactions are recorded.
- (2) Subsidiary records shall be kept where necessary.

**Section 115. Terminology and classification.** A common terminology and classification shall be used consistently throughout the budget, the accounts and the financial reports.

**Section 116. Accounts classification.** To permit effective budgetary control and to establish uniformity in financial reports, accounts shall be classified in balanced fund groups. The groups for each fund shall include all accounts necessary to set forth its operations and condition. All financial statements shall follow this classification.

**Section 117. Budgetary control accounts.** The general accounting system shall include budgetary control accounts for revenues, expenditures and debt, as provided by P.D. No. 1177.

**Section 118. Accounting for unrealized revenues.** Estimated revenues which remain unrealized at the close of the fiscal year shall not be booked or credited to the unappropriated surplus or any other account.

**Section 119. Accounting for obligations and expenditures.** All lawful expenditures and obligations incurred during the year shall be taken up in the accounts of that year.

### **CHAPTER 3 ACCOUNTING REPORTS**

**Section 120. Reporting requirements.** The Commission shall issue the pertinent accounting rules and regulations whenever the reporting requirements to be prescribed by the Budget Commission pursuant to the budget law affect accounting functions of the various agencies of the government.

**Section 121. Financial reports and statements.**

- (1) The financial reports prepared by the agencies shall comply with the specific requirements of applicable laws and regulations as to nature, accounting basis, content, frequency, and distribution as well as with all applicable restrictions pertaining to information that is classified for national security purposes.
- (2) The financial statements shall be based on official accounting records kept in accordance with law and the generally accepted accounting principles and standards.

**Section 122. Submission of reports.** Whenever deemed necessary in the exigencies of the service, the Commission may under regulations issued by it require the agency heads, chief accountants, budget officers, cashiers, disbursing officers, administrative or personnel officers, and other responsible officials of the various agencies to submit trial balances, physical inventory reports, current plantilla of personnel, and such other reports as may be necessary for the exercise of its functions.

- (2) Failure on the part of the officials concerned to submit the documents and reports mentioned herein shall automatically cause the suspension of payment of their salaries until they shall have complied with the requirements of the Commission.
- (3) No appropriation authorized in the General Appropriations Act shall be available to pay the salary or any official or employee who violates the provisions of this section, without prejudice to any disciplinary action that may be instituted against such official or employee.

**CHAPTER 4  
INTERNAL CONTROL SYSTEMS**

**Section 123. Definition of internal control.** Internal control is the plan of organization and all the coordinate methods and measures adopted within an organization or agency to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies.

**Section 124. Installation.** It shall be the direct responsibility of the agency head to install, implement, and monitor a sound system of internal control.

**TITLE IV  
FINAL PROVISIONS**

**Section 125. Transitory provisions.**

- (1) Until such time as the Commission shall have been fully constituted, the incumbent Chairman or his successor shall continue to exercise all the powers and functions properly appertaining to the Commission.
- (2) Pending implementation of the provisions of Section 24, paragraph 2 of this Code, the agencies concerned shall continue to provide the necessary amounts for the salaries, allowances and other benefits for the representative and staff of the Commission.

**Section 126. Duty to respect the Commission's independence.** It shall be the duty of every person to respect, protect and preserve the independence of the Commission.

**Section 127. Administrative disciplinary action.** Subject to rules and regulations as may be approved by the President (Prime Minister), any unjustified failure by the public officer concerned to comply with any requirement imposed in this Code shall constitute neglect of duty and shall be a ground for administrative disciplinary action against the said public officer who, upon being found guilty thereof after hearing, shall be meted out such penalty as is commensurate with the degree of his guilt in accordance with the Civil Service Law. Repeated unjustified failure to comply with the requirements imposed in this Code shall be conclusive proof that the public officer concerned is notoriously undesirable.

**Section 128. Penal provision.** Any violation of the provisions of Section 67, 68, 89, 106 and 108 of this Code or any regulation issued by the Commission implementing these sections, shall be punished by a fine not exceeding one thousand pesos or by imprisonment not exceeding six (6) months, or both such fine and imprisonment in the discretion of the court.

**Section 129. Separability clause.** Should any provision of this Code or any part thereof be declared invalid, the other provisions, so far as they are separable from the invalid one, shall remain in force and effect.

**Section 130. Repealing clause.** Chapter 26 (Accounting Law) of Act 2711 is hereby repealed. All other laws, executive orders, proclamations, decrees, instructions, rules and regulations, or parts thereof which are inconsistent or in conflict with any provision of this Code shall be deemed repealed or modified accordingly.

**Section 131. Effectivity clause.** This Code shall take effect three months after the completion of its publication in the Official Gazette.

Done in the City of Manila this 11<sup>th</sup> day of June in the year of Our Lord, nineteen hundred and seventy-eight.

(Sgd.) **FERDINAND E. MARCOS**

By the President:

(Sgd.) **JUAN C. TUVERA**  
Presidential Assistant