

AGENCY BUDGET NOTES

For FY 2023



DEPARTMENT OF NATIONAL DEFENSE



P240.29B
TOTAL NEW APPROPRIATIONS FOR 2023

COST STRUCTURE

P20.23B
(8.4%)

General Admin and Support

P220.06B
(91.6%)

Operations

ALLOCATION BY AGENCY



PHILIPPINE ARMY
P109.83B
(45.7%)



GHQ, AFP & AFPWSSUS
P54.03B
(22.5%)



PHILIPPINE AIR FORCE
P35.37B
(14.7%)



PHILIPPINE NAVY
P34.71B
(14.4%)



VMC
P2.30B
(1.0%)



GOVERNMENT ARSENAL
P1.42B
(0.6%)



OCD
P1.25B
(0.5%)

OTHER DND AGENCIES
P1.39B
(0.6%)

BREAKDOWN FOR OPERATIONS BUDGET



P102.72B
(46.7%)
Land Forces Defense Program



P43.60B
(19.8%)
Joint Force Capability Program



P33.34B
(15.1%)
Air Forces Defense Program



P30.45B
(13.8%)
Naval Forces Defense Program



P4.11B
(1.9%)
Joint Force Operations Program



P1.62B
(0.7%)
Veteran Health Care Program



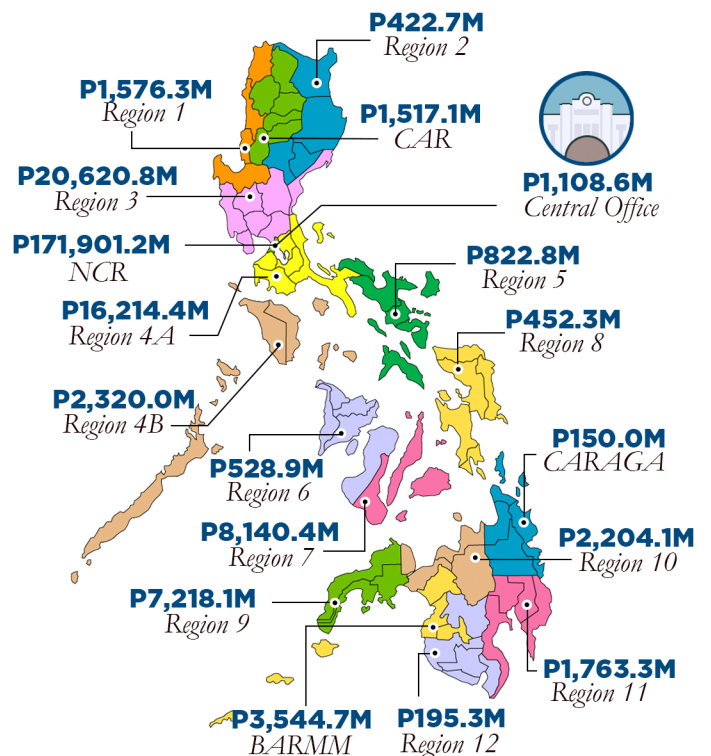
P1.27B
(0.6%)
Small Arms, Ammunition, Weapons and Munitions Program



P1.10B
(0.5%)
Civil Protection Program

Other Programs **P1.85B** (0.8%)










REGIONAL ALLOCATION OF THE 2023 EXPENDITURE PROGRAM (P240,701.0M)



QUICK FACTS











KEY SECTOR INFORMATION

2022 Global Peace Index Scores

	 Cambodia	 Indonesia	 Laos	 Malaysia	 Myanmar	 Philippines	 Singapore	 Thailand	 Vietnam
Overall Rank	62	47	51	18	139	125	9	103	44
Overall Score	1.88	1.80	1.80	1.47	2.63	2.33	1.32	2.09	1.78
Level of Safety and Security	2.08	2.10	2.07	1.97	3.11	2.68	1.31	2.62	2.06
Extent of Ongoing Conflict	1.63	1.64	1.40	1.01	2.70	2.46	1.00	1.90	1.40
Degree of Militarization	1.93	1.49	1.94	1.20	1.74	1.69	1.84	1.48	1.82










Notes: GPI uses 23 qualitative and quantitative indicators that measure the state of peace across three domains: (1) level of safety and security, (2) extent of ongoing conflict, and (3) degree of militarization. All scores for each indicator is normalized on a scale of 1 to 5. Lower numerical score means better performance.
Source: Global Peace Index (GPI) 2022 (Ranking out of 163 economies)

Absence of Violence/Terrorism (Percentile Rank)

	 Brunei	 Cambodia	 Indonesia	 Laos	 Malaysia	 Myanmar	 Philippines	 Singapore	 Thailand	 Vietnam
2018	92.9	52.4	26.9	59.9	54.7	11.3	12.7	98.6	18.9	49.5
2019	89.6	44.3	27.4	62.3	53.8	10.9	16.5	97.6	28.3	48.1
2020	90.6	41.0	28.3	69.3	50.9	9.9	18.9	97.2	24.5	44.8

Note: Lower percentile rank means more violence/terrorism (Ranking out of 200+economies) | Source: Worldwide Governance Indicators, World Bank

2022 Military Strength Ranking

	 Cambodia	 Indonesia	 Laos	 Malaysia	 Myanmar	 Philippines	 Singapore	 Thailand	 Vietnam
Overall	101	15	121	48	39	51	42	29	28
Active Military Manpower ^{a/}	34	12	55	32	12	30	43	14	9
Tank Strength ^{b/}	29	47	68	85	26	95	63	27	15
Naval Fleet Strength ^{c/}	58	6	-	34	19	32	51	8	30
Aircraft Fleet Strength ^{d/}	96	27	91	57	34	48	38	24	42

a/ excluding reserve and paramilitary, b/ armored vehicles, self-propelled artillery, towed artillery, and rocket projector, c/ aircraft carrier, helicopter, destroyer, frigate, corvette, submarine, patrol vessel and mine warfare, and d/ fighter/interceptor, dedicated attack, transport, trainer, special mission, tanker fleet, and helicopter
Source: Global Fire Power 2022 (Ranking out of 142 economies)

Internal-Armed Conflict

(GHQ-AFP, Research and Data Division, J3)

Communist Terrorist Group (New People's Army)

From January 16 to May 2022, the government initiated a total of 2,782 engagements which resulted in the killing of 1,080 terrorists and 1,860 government casualties (497 killed and 1,363 wounded in action).

Local Terrorist Groups (Abu Sayaff, Bangsamoro Islamic Freedom Fighters, and Daulah Islamiyah)

The AFP initiated a total of 1,378 engagements (January 16 to May 2022) which resulted in the killing of 2,494 terrorists and 3,071 government casualties (408 killed and 2,663 wounded in action).



Internally-Displaced People

(Mindanao Displacement Dashboard, UNCHR, April 2022)



2,979 families or 14,795 individuals were displaced in Mindanao due to:

8,368 individuals
Natural Disasters

4,442 individuals
Armed Conflict

1,670 individuals
Clan Feud

315 individuals
Crime & Violence

HIGHLIGHTS

- ❑ *Expenditure Program.* The proposed 2023 cash-based expenditure program for the Department of National Defense (DND) amounts to P240.7 billion—of which P240.3 billion are New Appropriations, and P0.4 billion are Automatic Appropriations. The DND budget for 2023 is 9% higher than the current year’s approved spending level of P220.9 billion with increments going to the three (3) Major Commands (Army/Air Force/Navy), and the General Headquarters (GHQ) of the Armed Forces of the Philippines (AFP).
- ❑ Breakdown of the 2023 DND budget by expense class shows that more than one-half (57.7%) or P138.8 billion will go to Personal Services (PS). About P58.6 billion (24.3%) will go to maintenance and other operating expenses (MOOE), and P43.3 billion (18%) will be used for Capital Outlay (CO).
- ❑ The three Major Commands (PA, PAF, and PN) including the GHQ/AFP, AFPWSSUS with a combined budget of P234.2 billion accounts for 97.3% of the total DND budget. The Philippine Army (PA) will receive the highest allocation of P109.9 billion or 45.6% of the total proposed DND budget in 2023. This is followed by the GHQ, AFP and AFPWSSUs with P54.1 billion (22.5%), Philippine Air Force (PAF) with P35.4 billion (14.7%), and the Philippine Navy (PN) with P34.8 billion (14.4%). The remaining P6.5 billion or 2.7% will be shared by other DND-attached agencies, including the Office of the Secretary (OSEC).
- ❑ *New Appropriations by Cost Structure.* About 91.6% or P220.1 billion of the total proposed new appropriations for DND in 2023 will go to Operations to support the implementation of DND’s programs, activities, and projects (PAPs). Meanwhile, allocation for General Administration and Support (GAS) amounting to P20.2 billion (8.4%) will be used for overall administrative management and operational support to the agency operations.
- ❑ *Allocation by Major Programs.* Total allocation for the implementation of DND programs in 2023 amounts to P220.1 billion which corresponds to the Operations budget. Two major programs that account for 66.5% of the Operations budget are—(i) the Land Forces Defense Program under PA (P102.7 billion) and (ii) Joint Force Capability Program under GHQ (P43.6 billion) of which, P40 billion is intended for the Revised AFP Modernization Program. Other programs with higher allocations are: Air Forces Defense (P33.3 billion), Naval Forces Defense (P30.5 billion), and the Joint Force Operations (P4.1 billion).
- ❑ *Status of COVID-19 Releases.* As of 31 December 2021, the total obligated amounts of the DND for COVID-19 initiatives amounted to P10.4 billion with the following breakdown: Bayanihan 1 (P904.5 million), Bayanihan 2 (P4.6 billion), Regular Fund/FY 2020 GAA (P692 million), and Regular Fund/FY 2021 GAA (P4.3 billion). On the other hand, total unobligated allotments (as of 31 December 2021) amounted to P335.3 million which can be traced to the following: Bayanihan 1 (P10.3 million), Bayanihan 2 (P164.8 million), Regular Fund/FY 2020 GAA (P5.6 million), and Regular Fund/FY 2021 GAA (P154.6 million).

- ❑ *Budget Utilization.* The overall budget utilization performance of the DND based on obligations to appropriations ratio (OAR) during the period 2019-2021 was generally high, ranging between 92% to 98%. This can be attributed to considerably high utilization rates of the Major Commands (PA, PAF and PN) which was at least 93%, with PAF almost close to full utilization. Due to the overall improving OAR of the DND, the total unused appropriations in 2020 (corresponds to a 96.1% OAR) amounted to P10.5 billion—with the GHQ/AFP accounting for P3.9 billion followed by the PA at P3.4 billion, and PN at P1.9 billion. At 97.6% OAR in 2021, unused appropriations of the DND subsequently declined to P7.8 billion—of which P1.4 billion were unreleased appropriations, and P6.4 billion were unobligated allotments.

- ❑ *Compliance with Audit Recommendations.* The 2021 Annual Audit Report (AAR) of the DND shows that a total of 171 COA recommendations were not implemented as of 31 December 2021. The GHQ/AFP recorded the highest number of unimplemented COA recommendations at 46, followed by the PA (23), and the PAF (19). The GA had 17 partially implemented audit recommendations.

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DEPARTMENT OF NATIONAL DEFENSE*

I. MANDATE AND ORGANIZATIONAL OUTCOMES

1.1 **Sectoral Goals.** The security sector seeks to contain and reduce the emergence of internal and external security threats to the country. One of the fundamental strategies of the updated Philippine Development Plan (PDP) 2017-2022 is to ensure security, public order, and safety with the following intended outcomes: (i) public safety is ensured; (ii) all forms of criminality and illegal drugs are significantly reduced; (iii) territorial integrity and sovereignty are upheld and protected; and (iv) security and safety of overseas Filipinos are ensured.

1.2 **Mandate.** The Department of National Defense (DND) is tasked to guard against external and internal threats to national peace and security, promote the welfare of soldiers and veterans, and to provide support for social and economic development. The DND through the Office of the Secretary (OSEC) supervises the Armed Forces of the Philippines (AFP) which is composed of the Philippine Army (PA), Philippine Air Force (PAF), and Philippine Navy (PN).

The AFP General Headquarters (GHQ) exercises overall command and control of all AFP units, while the AFP Wide-Service Support Units (AFPWSSUS) provides general support to the GHQ and Unified Commands. The following agencies are under the command and direction of the GHQ/AFPWSSUS: AFP Medical Center (AFPMC), Philippine Military Academy (PMA), and the Presidential Security Group (PSG). The legal bases for the creation of the DND are as follows:

- Commonwealth Act No. 1 (21 December 1935) or the National Defense Act, created the Council of National Defense to advise the President on all matters pertaining to national defense policy
- Commonwealth Act No. 430 (31 May 1939), as implemented by Executive Order 230 (31 October 1939), created the Department of National Defense
- Executive Order No. 94 (04 October 1947) charged the DND with the duty of supervising the national defense program of the country
- Executive Order No. 292 (25 July 1987) or the Administrative Code of 1987, as amended by Executive Order No. 112 (18 June 1999), directed the DND to exercise executive supervision over the Armed Forces of the Philippines (AFP),

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the Office of Civil Defense (OCD), the Philippine Veterans Affairs Office (PVAO), the National Defense College of the Philippines (NDCP), and the Government Arsenal (GA)

1.3 **Organizational Outcomes (OOs).** As an organization, the DND is committed to deliver the following organizational outcomes:

- Defense and security policy strategy provided (OSEC)
- Supply of small arms and ammunition increased to the level of demand (GA)
- Defense and security leaders' capability improved (NDCP)
- Resiliency of communities to disasters improved (OCD)
- Filipino veterans empowered (PVAO)
- Quality health care services to veterans and their dependents provided (VMHC)
- Level of mission capability of Army/Air Force/Navy units in their ground/air/naval operations attained, and sovereignty of the State and the Filipino people protected (AFP)

II. SOURCES OF APPROPRIATIONS

2.1 Table 1 shows the sources of appropriations of the DND for 2021-2023 including budgetary adjustments. Total available appropriations for the DND in 2023 amounts to P240.7 billion which is higher by P14.4 billion or 6.4% than the current year's level of P226.3 billion (including P5.4 billion in Continuing Appropriations). New appropriations in 2023 amounts to P240.3 billion or 99.8% of total available appropriations, while the remaining P0.40 billion are automatic appropriations. Note that the 2023 available appropriations do not include continuing appropriations and budgetary adjustments which are reflected only at the end of the given fiscal year.

TABLE I
SOURCES OF FUNDS, 2021-2023
DEPARTMENT OF NATIONAL DEFENSE

Particulars	Amounts (In Million Pesos)			Share to Total Appropriations		
	2021	2022	2023	2021	2022	2023
New Appropriations	205,471.2	220,487.7	240,292.9	63.8	97.4	99.8
Supplemental Appropriations	-	-	-	-	-	-
Automatic Appropriations	8,562.4	373.9	408.1	2.7	0.2	0.2
Continuing Appropriations	9,826.2	5,395.9	-	3.0	2.4	-
Budgetary Adjustments	98,353.1	-	-	30.5	-	-
Total Available Appropriations	322,212.9	226,257.6	240,701.0	100.0	100.0	100.0
LESS: Unused Appropriations	7,810.7	5,395.9	-	2.4	-	-
Total Obligations	314,402.2	220,861.7		97.6	-	-

Note: Totals may not add up due to rounding off.

Source of basic date: FY 2023 National Expenditure Program (NEP)

- 2.2 Total automatic appropriations in 2021 amounted to P8.6 billion—of which P6.9 billion was recorded by the GHQ/AFP and AFPWSSUs (to include customs duties and taxes). Automatic appropriations are funds already covered by a separate law, and it does not require periodic action by Congress, e.g., Retirement and Life Insurance Premium (RLIP), and the Special Account for AFP Modernization]. Automatic appropriations for 2022 and 2023 is intended for RLIP.
- 2.3 Continuing appropriations are unused appropriations from the previous year that is carried over to the next fiscal year. Note that despite the adoption of the annual cash-based budgeting system, validity of GAAs have been extended to allow for unused appropriations to be available the following year. Continuing appropriations for the DND amounted to P9.8 billion and P5.4 billion in 2021 and 2022, respectively.
- 2.4 Budgetary adjustments which are transfers made within the fiscal year amounted to P98.4 billion in 2021. The DND received a total of P98.5 billion fund transfers that year—particularly from the Miscellaneous Personnel Benefits Fund (MPBF) and the Pension and Gratuity Fund (PGF). A hefty amount is annually transferred to the DND to cover for the payment of pensions and retirement benefits of military personnel. Meanwhile, various agencies within the DND also transferred to overall savings a total of P194.6 million—hence, the net amount of P98.4 billion in budgetary adjustments.

III. EXPENDITURE PROGRAM

By Agency

- 3.1 Table 2 shows that total actual spending of the DND in 2021 amounted to P314.4 billion which is relatively higher due to budgetary adjustments from PGF and MPBF, the Continuing Appropriations, and special appropriations under Bayanihan 2. In 2021, the OCD received P282.8 million from Bayanihan 2 (RA 11494). The proposed 2023 cash-based expenditure program amounting to P240.7 billion is 9% more than the current year's approved spending level of P220.9 billion; with increments mostly going to the three Major Commands and the GHQ/AFP.
- 3.2 In 2023, bulk of the DND budget—i.e., P234.2 billion or 97.3% will go to the AFP and will be distributed to the following commands: PA (P109.9 billion or 45.6%), GHQ/AFP (P54.1 billion or 22.5%), PAF (P35.4 billion or 14.7%), and the PN (P34.8 billion or 14.4%). The remaining P6.5 billion or 2.7% will be shared by OSEC, GA, NDCCP, OCD, PVAO and VMMC.

TABLE 2
EXPENDITURE PROGRAM BY AGENCY, 2021-2023

Particulars	Amounts (In Million Pesos)			Share to Total (%)		
	2021	2022	2023	2021	2022	2023
	Actual	Program	Proposed	Actual	Program	Proposed
Office of the Secretary	533.7	700.3	699.2	0.2	0.3	0.3
Government Arsenal	1,372.1	1,473.5	1,438.1	0.4	0.7	0.6
National Defense College of the Philippines	138.1	135.1	110.1	0.0	0.1	0.0
Office of Civil Defense	10,025.4	1,496.3	1,281.2	3.2	0.7	0.5
Philippine Veterans Affairs Office (Proper)	10,586.8	636.5	615.6	3.4	0.3	0.3
Veterans Memorial Medical Center	2,261.8	2,409.1	2,375.8	0.7	1.1	1.0
Philippine Army (Land Forces)	102,877.1	103,143.2	109,874.6	32.7	46.7	45.6
Philippine Air Force (Air Forces)	31,615.8	35,880.6	35,413.7	10.1	16.2	14.7
Philippine Navy (Naval Forces)	32,772.5	33,015.5	34,753.7	10.4	14.9	14.4
GHQ, AFP and AFPWSSUs	122,218.9	41,971.5	54,138.9	38.9	19.0	22.5
TOTAL	314,402.2	220,861.7	240,701.0	100.0	100.0	100.0

Source of basic data: BESF 2023

By Expense Class

- 3.3 Table 3 shows the DND expenditure program by expense class for 2021-2023. Personal Services (PS) continues to account for the bulk of the DND budget. Actual expenditures for PS were significantly high in 2021 at P211.3 billion or 67.2% of the total actual spending of the department, as it already reflects the PS-related transfers from Special Purpose Funds (e.g., pensions). Note that the PS share in the DND budget is considerably high also as a result of the increase in the base pay of the military personnel pursuant to Joint Resolution No. 1 issued on 24 July 2017.¹

TABLE 3
EXPENDITURE PROGRAM BY GENERAL EXPENSE CLASS, 2021-2023
(AMOUNTS IN MILLION PESOS)

Particulars	Amounts (In Million Pesos)			Share to Total (%)		
	2021	2022	2023	2021	2022	2023
PS	211,268.0	129,107.3	138,812.0	67.2	58.5	57.7
MOOE	60,681.3	54,158.8	58,582.9	19.3	24.5	24.3
CO	42,452.9	37,595.5	43,306.0	13.5	17.0	18.0
Fin Ex	0.02	0.04	0.04	0.0	0.0	0.0
TOTAL	314,402.2	220,861.7	240,701.0	100.0	100.0	100.0

Note: 0 = less than 0.1

Source of basic data: FY 2023 BESF

¹ Section 4 (a) of RA 11466 (8 January 2020) also known as the Salary Standardization Law of 2019 exclude the military and uniformed personnel (MUP) from the coverage of the salary increase.

- 3.4 Actual spending for Maintenance and Other Operating Expenses (MOOE) in 2021 amounted to P60.7 billion or 19.3% while spending for capital outlay (CO) amounted to P42.5 billion or 13.5% of the total expenditures in 2021.
- 3.5 For 2023, total allocation for PS amounts to P138.8 billion while MOOE and CO will get P58.6 billion and P43.3 billion, respectively. This translates to about 57.7% budget share for PS, 24.3% for MOOE, and 18% for CO.
- 3.6 Allocation for PS will be used for payment of salaries, wages and other compensation of government employees. MOOE will be for expenditures to support the operations of government agencies such as expenses for supplies and materials, transportation and travel utilities, and necessary repairs. Meanwhile, CO allocation will be used for the purchase of goods and services, the benefits of which extend beyond the fiscal year and which adds up to the assets of the government (BESF, 2023).

TABLE 4
NUMBER OF AUTHORIZED AND UNFILLED POSITIONS BY AGENCY, 2020-2023

Agency	Authorized Positions				Unfilled Positions			
	2020	2021	2022	2023	2020	2021	2022	2023
OSEC	341	341	341	341	62	72	67	67
GA	687	687	687	687	104	93	113	113
NDCP	66	66	66	66	11	4	7	7
OCD	655	713	713	713	154	215	163	163
PVAO	406	386	386	386	73	62	57	57
VMMC	1,774	1,774	1,774	1,774	573	408	386	386
PA	104,876	114,595	115,154	115,154	370	332	928	928
<i>Civilian</i>	1,698	1,698	1,698	1,698	370	332	369	369
<i>Military</i>	103,178	112,897	113,456	113,456	-	-	559	559
PAF	20,899	22,688	23,584	23,584	857	1,285	2,168	2,168
<i>Civilian</i>	1,827	1,827	1,827	1,827	586	605	592	592
<i>Military</i>	19,072	20,861	21,757	21,757	271	680	1,576	1,576
PN	26,710	26,710	28,021	28,021	1,385	1,813	2,625	2,625
<i>Civilian</i>	1,450	1,450	1,450	1,450	491	324	325	325
<i>Military</i>	25,260	25,260	26,571	26,571	894	1,489	2,300	2,300
GHQ	7,176	7,176	7,176	7,176	1,412	1,563	1,335	1,335
<i>Civilian</i>	3,945	3,945	3,945	3,945	1,128	1,066	1,058	1,058
<i>Military</i>	3,231	3,231	3,231	3,231	284	497	277	277
TOTAL	323,251	346,305	351,837	351,837	9,025	10,840	14,905	14,905

Source: Staffing Summary, 2022-2023

Unfilled Positions

- 3.7 Table 4 shows the number of unfilled positions in the DND from 2020-2023 based on the data from the Staffing Summary. Total number of unfilled positions in 2022 is at 14,905 which is equivalent to 4.2% of the total 351,837 authorized/permanent positions in the DND. The same number of unfilled positions in the DND is projected for 2023. In 2022,

the PN and the PAF reported relatively higher number of unfilled positions at 2,625 and 2,168 respectively. It may be noted that unfilled positions are higher among civilian personnel in the GHQ.

- 3.8 Table 5 presents the regional distribution of the DND budget for the period 2021-2023. The BESF does not reflect any allocation under Nationwide. The regional breakdown of the DND budget shows that NCR, where the headquarters of the Major Commands are located, consistently accounts for over 70% of the budget of the department. Note that actual spending for NCR in 2021 is P246.4 billion or 78.4% of the entire DND budget.
- 3.9 In 2023, NCR will receive an allocation of P171.9 billion or 71.4% of the DND budget. Other regions with relatively higher allocations are: Region 3 (P20.6 billion or 8.6%), Region 4A (P16.2 billion or 6.7%), Region 7 (P8.1 billion or 3.4%), Region 9 (P7.2 billion or 3%), BARMM (P3.5 billion or 1.5%), and Region 4B (P2.3 billion or 1%). On the other hand, CARAGA will get the lowest allocation of P150 million or 0.1% of the entire DND budget.

TABLE 5
REGIONAL DISTRIBUTION OF THE DND BUDGET, 2021-2023
(AMOUNTS IN MILLION PESOS)

Region	2021		2022		2023	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Nationwide	-	-	-	-	-	-
Central Office	9,781.2	3.1	1,321.6	0.6	1,108.6	0.5
NCR	246,447.3	78.4	159,772.1	72.3	171,901.2	71.4
CAR	1,472.4	0.5	1,422.8	0.6	1,517.1	0.6
Region 1	935.2	0.3	954.5	0.4	1,576.3	0.7
Region 2	1,051.1	0.3	411.2	0.2	422.7	0.2
Region 3	15,879.6	5.1	16,895.4	7.6	20,620.8	8.6
Region 4A	16,505.4	5.2	15,204.6	6.9	16,214.4	6.7
Region 4B	747.3	0.2	1,273.9	0.6	2,320.0	1.0
Region 5	1,120.3	0.4	600.6	0.3	822.8	0.3
Region 6	1,201.4	0.4	533.9	0.2	528.9	0.2
Region 7	6,539.7	2.1	11,500.4	5.2	8,140.4	3.4
Region 8	949.7	0.3	456.4	0.2	452.3	0.2
Region 9	3,123.5	1.0	2,701.9	1.2	7,218.1	3.0
Region 10	3,388.2	1.1	3,290.8	1.5	2,204.1	0.9
Region 11	2,252.8	0.7	1,315.9	0.6	1,763.3	0.7
Region 12	23.6	0.0	193.6	0.1	195.3	0.1
CARAGA	23.7	0.0	146.7	0.1	150.0	0.1
BARMM	2,959.9	0.9	2,865.3	1.3	3,544.7	1.5
TOTAL	314,402.2	100.0	220,861.6	100.0	240,701.0	100.0

Source of basic data: BESF 2023

IV. SPENDING FOR COVID-19 INITIATIVES

4.1 RA 11469 (Bayanihan 1) and RA 11494 (Bayanihan 2) were enacted to support government's response to the COVID-19 crisis. Both laws granted the President extraordinary budgetary powers to discontinue and reallocate appropriations in favor of the national government's COVID-19 initiatives. Table 6 shows that as of 31 December 2021, the total allotment received by the DND for COVID-19 initiatives amounted to P10.8 billion—of which P914.8 million were from Bayanihan 1, about P4.7 billion from Bayanihan 2, around P697.6 million from the FY 2020 GAA Regular Fund, and P4.4 billion from the FY 2021 GAA Regular Fund.

TABLE 6
STATUS OF COVID-19 RELEASES TO DND, AS OF 31 DECEMBER 2021
(AMOUNTS IN MILLION PESOS)

Program/Purpose	Allotment Released	Obligations	Disbursements	Unobligated Allotment
I. Bayanihan 1	914.8	904.5	727.1	10.3
Operational budget requirements for the temporary treatment and monitoring facilities for COVID-19 persons under PUI and mild positive cases (AFPMC)	150.7	140.8 ^{a/}	20.3 ^{a/}	9.9
Additional funding requirements for the operations and implementation of measures against the COVID-19 outbreak (DND)	100.0	99.7 ^{c/}	67.9 ^{c/}	0.347
Additional funding requirements of the FY 2020 Quick Response Fund of the OCD (OCD)	536.0	536.0 ^{e/}	510.8 ^{e/}	-
Funding requirements for COVID-19 related disaster management operations of the agency (OCD)	128.1	128.1 ^{b/}	128.1 ^{b/}	0.021
II. Bayanihan 2	4,731.3	4,566.5	4,321.7	164.8
Operating requirements for various COVID-19 facilities and other related expenditures (OCD)	2,573.9	2,573.7 ^{e/}	2,543.0 ^{e/}	0.2
Operating requirements for various COVID-19 facilities nationwide (DND)	855.2	690.7 ^{e/}	617.3 ^{e/}	164.5
Additional funding requirements for the FY 2020 Quick Response Fund (OCD)	231.3	231.3 ^{e/}	114.6 ^{e/}	0.028
Operating requirements for various COVID-19 facilities nationwide-Special Appro/RA11494 (OCD)	1,070.9	1,070.9 ^{d/}	1,046.8 ^{d/}	-
III. Regular Fund (FY 2020 GAA)	697.6	692.0	643.7	5.6
Funding requirements for COVID-19 related expenditure items (DND)	5.6	-	-	5.6
Frontloading of cash requirements originally programmed in the 2nd semester to cover COVID-19 expenditures (OCD)	99.7	99.7	99.7	-
Funding requirements for additional provisions, as medical facility for veterans and their dependents, during the COVID-19 pandemic (VMMC)	150.0	150.0	150.0	-
Procurement of medical equipment, patrol boats, unmanned aerial system and mobile storage trailer to be used for COVID-19 response (AFP-PA)	86.1	86.1 ^{c/}	56.1 ^{c/}	-
Additional funding requirements for the FY 2020 QRF (OCD)	356.2	356.2 ^{d/}	337.8 ^{d/}	-
IV. Regular Fund (FY 2021 GAA)	4,418.6	4,263.9	3,408.7	154.6
Funding requirements for COVID-19 response under the Oplan Kalinga Program (OCD)	1,000.0	845.5 ^{e/}	314.5 ^{e/}	154.5
Funding requirements for the COVID-19 response under Oplan Kalinga Program-NDRRMF (OCD)	3,418.6	3,418.5 ^{e/}	3,094.2 ^{d/}	0.093
TOTAL	10,762.2	10,426.9	9,101.1	335.3

Note: Totals may not add up due to rounding off.

a/ As of 30 April 2020, b/ As of 15 May 2021, c/ As of 30 June 2021, d/ As of 30 September 2021, e/ As of 31 December 2021

Source: Status of COVID-19 Releases, As of 31 December 2021 (DBM website)

- 4.2 Of the P10.8 billion total COVID-19 releases, P10.4 billion have been obligated—hence, the total unobligated allotment amounting to P335.3 million. While obligations may be rather high, disbursements were only at P9.1 billion.
- 4.3 Total allotment released under Bayanihan 1 amounted to P914.8 million—of which about P10.3 million was unobligated. Table 6 shows that P9.9 million of unobligated allotments under Bayanihan 1 can be traced to the AFPMC—as balance of the P150.7 million for temporary treatment and monitoring facilities for COVID-19 patients. Other releases to DND under Bayanihan 1 are for the following purposes: (i) OCD-P536 million as additional Quick Response Fund (QRF); (ii) OCD-P128.1 million for COVID-19 related disaster management operations; and (iii) OSEC-P100 million additional funding requirements for the operations and implementation of measures against the COVID-19 outbreak.
- 4.4 Bayanihan 2 allotment releases amounted to P4.7 billion—the bulk (P3.9 billion) went to the OCD for the operating requirements of various COVID-19 facilities nationwide and other related expenditures. Regular fund (FY 2020 GAA) releases amounted to P697.6 million—the bulk (P356.2 million) went to the OCD as additional funding requirements for the FY 2020 Quick Response Fund, and to the VMMC (P150 million) as additional provisions for veterans and their dependents during the COVID-19 pandemic. The Regular Fund (FY 2021 GAA) releases amounting P4.4 billion went to the OCD for the for COVID-19 response under the Oplan Kalinga Program (P1 billion), and for the National Disaster Risk Reduction and Management Fund (P3.4 billion).
- 4.5 Total unobligated allotments as of 31 December 2021 amounted to P335.3 million with the following breakdown: (i) Bayanihan 1 (P10.3 million)—the bulk (P9.9 million) was reported by the AFPMC; (ii) Bayanihan 2 (P164.8 million), of which P164.5 million was reported by the DND/OSEC; (iii) Regular Fund/FY 2020 GAA (P5.6 million) for COVID-19 related expenditure items of the DND/OSEC; and (iv) Regular Fund/FY 2021 GAA (P154.6 million) was reported by the OCD for COVID-19 response under the Oplan Kalinga Program.

V. NEW APPROPRIATIONS

- 5.1 Table 7 presents the proposed new appropriations of the DND for 2023 which amounts to P240.3 billion. The three Major Commands (PA, PAF, and PN) including the GHQ/AFP, AFPWSSUS with a combined budget of P233.9 billion accounts for 97.4% of the total new appropriations for DND.
- 5.2 By cost structure, the DND budget is distributed as follows: General Administration and Support or GAS (P20.2 billion), and Operations (P220.1 billion). The DND has no allocation for Support to Operations in 2023. GAS which refers to activities and expenditures for the provision of overall administrative management and operational support to the entire agency accounts for 8.4% of total New Appropriations.

5.3 Meanwhile, the Operations budget accounts for 91.6% of total New Appropriations in 2023. It consists of programs expenditures relating to the main purpose for which the agency was created, and could involve direct production of goods or delivery of services or direct engagement in regulations (BESF, 2023). Under the 2023 Operations budget is a locally-funded project amounting to P40 billion which pertains to the Revised AFP Modernization Program. Except for the NDCP, OSEC, VMMC, and PVAO, the Operations budget of the other DND agencies are more than 80% of their respective total New Appropriations.

TABLE 7
NEW APPROPRIATIONS BY AGENCY AND COST STRUCTURE, FY 2023

Agency	Amounts (In Million Pesos)				Share to Total Agency (%)			
	GAS	STO	Operations	Total Agency	GAS	STO	Operations	Total Agency
OSEC	264.8	-	414.2	679.0	39.0	-	61.0	100.0
GA	147.1	-	1,272.8	1,419.9	10.4	-	89.6	100.0
NDCP	63.1	-	43.6	106.7	59.1	-	40.9	100.0
OCD	145.6	-	1,103.7	1,249.3	11.7	-	88.3	100.0
PVAO	125.1	-	476.7	601.8	20.8	-	79.2	100.0
VMMC	677.2	-	1,621.2	2,298.4	29.5	-	70.5	100.0
PA	7,109.1	-	102,717.6	109,826.7	6.5	-	93.5	100.0
PAF	2,029.1	-	33,339.6	35,368.7	5.7	-	94.3	100.0
PN	4,261.7	-	30,451.7	34,713.4	12.3	-	87.7	100.0
GHQ, AFP & AFPWSSUs	5,406.8	-	48,622.2	54,029.0	10.0	-	90.0	100.0
TOTAL	20,229.5	-	220,063.4	240,292.9	8.4	-	91.6	100.0

Source of basic data: NEP 2023

5.4 Table 8 presents the allocations for the different programs of the DND in 2021-2023. Total allocation for the implementation of DND programs in 2023 amounts to P220.1 billion. This amount corresponds to the department's Operations budget which is P17.6 billion or 8.7% higher than the 2022 level of P202.5 billion.

5.5 Of the 15 defense programs, the following are the five (5) major recipients of program funds under the 2023 Operations budget: (i) Land Forces Defense Program (P102.7 billion or 46.7%); (ii) Joint Force Capability Program (P43.6 billion or 19.8%) of which P40 billion will fund the requirements of the Revised AFP Modernization Program, (iii) Air Forces Defense Program (P33.3 billion or 15.1%), (iv) Naval Forces Defense Program (P30.5 billion or 13.8%), and (v) Joint Force Operations Program (P4.1 billion or 1.9%). The combined allocation of these five defense programs (P214.2 billion) accounts for 97.3 % of the entire Operations budget of the DND in 2023.

TABLE 8
SUMMARY OF PROGRAMS FOR 2021-2023
DEPARTMENT OF NATIONAL DEFENSE

Program/Implementing Agency	Amount (In Million Pesos)			% Share to Total Program			Growth Rates 22-23 (%)
	2021	2022	2023	2021	2022	2023	
Land Forces Defense (PA)	90,106.7	95,440.4	102,717.6	47.9	47.1	46.7	7.6
Joint Force Capability (GHQ)	30,506.5	32,434.1	43,599.8	16.2	16.0	19.8	34.4
Of which: Revised AFP Modernization Program	33,000.0	35,000.0	40,000.0	17.5	17.3	18.2	14.3
Air Forces Defense (PAF)	28,803.2	34,290.2	33,339.6	15.3	16.9	15.1	(2.8)
Naval Forces Defense (PN)	28,386.3	29,735.7	30,451.7	15.1	14.7	13.8	2.4
Joint Force Operations (GHQ)	4,576.9	4,332.7	4,109.9	2.4	2.1	1.9	(5.1)
Veteran Health Care (VMMC)	1,610.6	1,777.8	1,621.2	0.9	0.9	0.7	(8.8)
Small Arms, Ammunition, Weapons & Munitions (GA)	1,217.1	1,331.0	1,272.8	0.6	0.7	0.6	(4.4)
Civil Protection (OCD)	1,082.9	1,272.3	1,103.7	0.6	0.6	0.5	(13.3)
Joint Force Planning (GHQ)	891.2	882.7	912.5	0.5	0.4	0.4	3.4
Veterans' Welfare & Benefits Administration (PVAO)	598.7	447.9	410.3	0.3	0.2	0.2	(8.4)
Defense Policy and Strategy Management (OSEC)	267.4	397.5	414.2	0.1	0.2	0.2	4.2
Veterans' Memorial & Historical Preservation (PVAO)	92.7	49.0	49.5	0.0	0.0	0.0	0.9
National Defense and Security Education (NDCP)	53.1	40.4	24.0	0.0	0.0	0.0	(40.5)
National Defense & Security Policy Studies (NDCP)	15.2	17.2	19.6	0.0	0.0	0.0	14.0
Veterans' Affairs Management (PVAO)	14.3	14.5	17.0	0.0	0.0	0.0	17.6
TOTAL	188,222.7	202,463.3	220,063.4	100.0	100.0	100.0	8.7

Notes: 0 = less than 0.1

Allocation for programs and total operations are inclusive of locally and foreign-assisted projects

Source: GAA 2020-2022 and NEP 2023

5.6 As of 20 June 2022, the Revised AFP Modernization Program (RAFPMP) under Horizon 1 (2013-2017) had completed 33 out of the 53 projects approved by the President with a total amount of P97.1 billion. The remaining 20 projects amounting to P46.7 billion are under contract implementation. There are 96 approved projects by the President under Horizon 2 (2018-2022) with a total funding requirement of P425.9 billion. Of the 96 approved projects, only 13 projects amounting P28.9 billion have been completed (as of 20 June 2022).

5.7 The remaining 83 projects amounting P402.9 billion are in various stages such as contract implementation, procurement, and/or needing funds to start the implementation. The table below shows the remaining funding requirements amounting to P332 billion to complete Horizon 1 and 2.² If an annual allocation of P40 billion for the AFP

² DND Report on the status of the implementation of the Revised AFP Modernization Program (emailed on 21 June 2022). From the Office of the Assistant Secretary for Financial Management (OASFM), Department of National Defense.

Modernization Program will not change, it will take eight (8) years to complete Horizon 1 and 2. Given the funding deficiency for Horizon 1 and 2, the implementation of Horizon 3, originally scheduled for 2023 to 2028 is likely to be unfunded in the next several years.³

Particulars	Amount (In billion pesos)	Remarks (as of 20 June 2022)
Requirements:		
Horizon 1 (2013-2017)	97.09	33/53 projects completed
Horizon 2 (2018-2022)	425.87	13/96 projects completed
<i>Total (H1+H2)</i>	<i>522.96</i>	<i>46/149 projects completed</i>
Releases:		
2014-2017 (GAA)	166.78	
2017-2021 (BCDA)	24.18	
<i>Total (GAA+BCDA)</i>	<i>190.96</i>	
Remaining Fund Requirement (Horizon 1 and Horizon 2)	332.00	

Source: J3, AFP, GHQ (emailed on 21 June 2022)

VI. PERFORMANCE REVIEW

- 6.1 Table 9 shows the budget utilization performance of the DND based on obligations to appropriations ratio (OAR) for the period 2019-2021. The overall OAR of the DND was generally high and has been increasing annually from 92.9% in 2019 to 97.6% in 2021. This can be attributed to considerably high utilization rates of the Major Commands (PA, PAF and PN) which were at least 93%, with PAF almost close to full utilization. In the case of the GHQ/AFP, its utilization rate has steadily improved from 87.8% in 2019 to 95.8% in 2020, and 98.4% in 2021. Among the DND agencies, the NDCP consistently posted the lowest OAR in 2019-2021 which at most reached 79.7% in 2021. The OCD which also had a low OAR of 66% in 2019 was able to improve its utilization to 83.2% in 2020, and to 97.5% in 2021.
- 6.2 Total unused appropriations in 2019 (corresponding to a 92.9% OAR) amounted to P20.4 billion—with the GHQ/AFP accounting for P14.4 billion. With DND posting overall improvement in OAR in 2020 at 96.1%, its unused appropriations subsequently declined to P10.5 billion with GHQ/AFP and PA accounting for P3.9 billion and P3.4 billion, respectively. Appropriations are considered “unused” in two instances: (i) when the agency fails to obligate the allotments released by DBM (unobligated allotment), and (ii) when the appropriation is not released by DBM (unreleased appropriation). Total unused appropriations in 2021 amounted to P7.8 billion—of which P1.4 billion were unreleased appropriations, and P6.4 billion were unobligated allotments.

³ Horizon 3 (2023 to 2028) will prioritize self-reliant defense posture program by bringing in more sophisticated equipment such as fighter planes, ships, and submarine.

TABLE 9
OBLIGATIONS-APPROPRIATIONS RATIO
AND UNUSED APPROPRIATIONS, 2019-2021

Particulars	Obligation-Appropriations Ratio (%)			Unused Appropriations (In Million Pesos)		
	2019	2020	2021	2019	2020	2021
Office of the Secretary	97.5	90.4	90.9	14.3	60.7	53.3
Government Arsenal	97.9	96.9	88.9	32.7	40.2	171.1
National Defense College of the Phils.	62.1	57.9	79.7	77.2	71.7	35.1
Office of Civil Defense	66.0	83.2	97.5	519.7	669.1	257.4
Philippine Veterans Affairs Office	99.8	99.3	99.1	19.2	75.0	96.5
Veterans Memorial Medical Center	91.7	88.2	94.7	162.2	242.1	126.7
Philippine Army	95.9	96.7	97.8	4,068.9	3,354.7	2,327.0
Philippine Air Force	98.6	99.6	98.4	360.9	93.8	512.2
Philippine Navy	97.5	93.6	93.7	749.5	1,945.2	2,209.3
GHQ, AFP and AFPWSSUs	87.8	95.8	98.4	14,350.4	3,930.8	2,021.9
TOTAL	92.9	96.1	97.6	20,355.1	10,483.1	7,810.7

Sources of basic data: NEP 2021-2023

6.3 Table 10 presents the disbursement rates of the DND agencies for the period 2020-2021. Disbursements indicate that procured goods and services have actually been delivered or completed. Overall DND disbursement rate was at 84.9% in 2020, and 82.4% in 2021. In 2020, the DND was able to disburse P229.4 billion out of its total appropriations of P270.3 billion. In the same year, the NDCP registered the lowest disbursement rate of 44.5% followed by the OCD at 52.3%, but NDCP and OCD significantly improved to 70.1% and 84%, respectively in 2021. In absolute amount—the OCD has higher undisbursed appropriations of about P1.6 billion compared to NDCP in 2021.

TABLE 10
DISBURSEMENT RATE BY AGENCY, 2020-2021
(AMOUNTS IN MILLION PESOS)

Particulars	2020			2021		
	Appropriations	Disbursements	Disbursement Rate (%) ^{a/}	Appropriations	Disbursements	Disbursement Rate (%) ^{a/}
OSEC	632.7	505.5	79.9	587.0	491.4	83.7
GA	1,302.1	1,139.6	87.5	1,543.3	1,159.9	75.2
NDCP	170.1	75.7	44.5	173.2	121.5	70.1
OCD	3,979.3	2,079.9	52.3	10,282.8	8,641.5	84.0
PVAO (Proper)	10,897.7	10,797.0	99.1	10,683.3	10,523.1	98.5
VMMC	2,044.3	1,504.4	73.6	2,388.6	1,877.9	78.6
PA	100,643.5	89,908.2	89.3	105,204.1	95,420.2	90.7
PAF	26,152.5	21,416.4	81.9	32,128.0	23,407.5	72.9
PN	30,564.6	24,377.1	79.8	34,981.8	26,671.1	76.2
GHQ & AFPWSSUs	93,866.4	77,576.7	82.6	124,240.8	97,043.8	78.1
TOTAL	270,253.1	229,380.5	84.9	322,212.9	265,357.8	82.4

a/ Disbursement rate – ratio of disbursements to appropriations
Source: SAAODB 2020-2021, DBM

- 6.4 The PA with total appropriations amounting to P105.2 billion in 2021 was able to disburse P95.4 billion or 90.7% of its total available appropriations. Among the DND agencies, PVAO posted the highest disbursement rate of 98.5% in 2021, while the NDCP recorded the lowest disbursement rate of 70.1% in 2021 followed by PAF (72.9%), GA (75.2%), PN (76.2%), GHQ (78.1%), and VMMC (78.6%).
- 6.5 Table 11 presents the budget utilization performance of the major programs of the DND in 2021 based on the Financial Accountability Report (FAR 1) posted in the Transparency Seal of the agency websites. All major DND programs (except Small Arms Ammunition, Weapons and Munitions) have high obligation rates that were above 90%. Note that the Revised AFP Modernization Program which has a relatively higher obligation rate of 99% posted the lowest disbursement rate of 32.7%. It is the Land Forces Defense Program that posted both high obligation and disbursement rates in 2021 at 97.8% and 91.8%, respectively. Meanwhile, the Air Forces and Naval Defense Programs have considerably high obligation rates, but disbursement rate ranging between 70%-78% can be improved.
- 6.6 According to AFP Public Affairs Office, among the reasons for the delay in the implementation of the AFP Modernization Program are as follows: “unforeseen circumstances, issues with licenses, clearances, site possessions, and some constraints due to manufacturers or contractors”.⁴ Following COA recommendations, the AFP has imposed liquidated damages on contractors and suppliers for late deliveries or completion of projects, as well as contractors’ disqualification and blacklisting.⁵

TABLE 11
BUDGET UTILIZATION BY MAJOR PROGRAM, 2021
(AMOUNTS IN MILLION PESOS)

Program/ Implementing Agency	Appropriations	Obligations	Disbursements	Obligation Rate (%) ^{a/}	Disbursement Rate (%) ^{b/}
Land Forces Defense (PA)	90,715.6	88,682.7	83,319.7	97.8	91.8
Air Forces Defense (PAF)	29,092.6	28,583.5	20,455.6	98.3	70.3
Naval Forces Defense (PN)	28,019.3	26,675.5	21,709.9	95.2	77.5
Revised AFP Modernization (GHQ)	34,370.8	34,030.5	11,247.9	99.0	32.7
Small Arms Ammunition, Weapons and Munitions (GA)	1,250.6	1,093.9	894.5	87.5	71.5

a/ Obligation rate – ratio of obligations to appropriations

b/ Disbursement rate – ratio of disbursements to appropriations

Source: SAAODB 2021 (FAR No. 1 in Transparency Seal)

- 6.7 In the 2021 AAR of the GHQ, the COA reported that in 2018 and 2020 the amount of P686.9 million was transferred to the Philippine International Trading Corporation (PITC) for AFP Modernization projects—of which P254.9 million remain undelivered (as of 31 December 2021). Moreover, the issuance of Notice of Award of three (3) contracts for the

⁴ *Nepomuceno Priam. (14 July 2021). Unforeseen situations delayed some modernization projects: AFP. PNA News [Online]. Accessed on 08-11-2022 from <https://www.pna.gov.ph/articles/2246972>*

⁵ *Martin Sadongdong (14 July 2021). AFP rues P6.8 billion worth of delayed modernization projects: Manila Bulletin [Online]. Accessed on 09-12-2022 from <https://mb.com.ph/2021/07/14/>*

AFP Modernization Program was also delayed from 33 to 61 days contrary to the Revised IRR of RA 9184 or the Government Procurement Reform Act (GPRA). Details of the audit findings are presented in Part VII (COA Findings and Recommendations) under the General Headquarters (pp. 21).

**TABLE 12
PERFORMANCE INDICATORS OF MAJOR PROGRAMS, 2021-2023**

Program	2021		2022	2023
	Target	Actual	Target	Target
Program 1: Land Forces Defense Program				
Outcome Indicators				
Indicator 1: % of Tactical Units provided to force employers that are in prescribed readiness condition	79%	77%	80%	80%
Indicator 2: % of Ready Reserve Units in prescribed readiness Condition	60%	89%	60%	78%
Output Indicators				
Indicator 1: Number of tactical and ready reserve units maintained				
(a) Tactical Battalions	240	220	240	243
(b) Ready Reserve Battalions	86	84	86	86
Indicator 2: % of operational readiness of tactical and ready reserve units				
(a) Tactical Battalions	83%	85%	85%	89%
(b) Ready Reserve Battalions	68%	80%	68%	78%
Indicator 3: Average % of effective strength of tactical battalions that can be mobilized within 1 hour as directed by higher authorities	90%	90%	90%	90%
Program 2: Air Forces Defense Program				
Outcome Indicator				
Indicator 1: % of Tactical Air Operations Group that supported the Unified Command	100%	100%	100%	100%
Output Indicators				
Indicator 1: Number of supportable aircraft maintained	173	162	173	169
Indicator 2: % of accomplishment of one-hour response to flight-directed mission	90%	94%	90%	90%
Indicator 3: % of flying hours flown	100%	72%	100%	100%
Program 3: Naval Forces Defense Program				
Outcome Indicator				
Indicator 1: Percentage of Naval Units provided to Unified Commands	100%	110.27%	100%	100%
Output Indicators				
Indicator 1: Number of PN units deployed and sustained for utilization/employment	109	129	109	118
Indicator 2: Number of PN units prepared for deployment	34	30	34	35
Indicator 3: Number of Force-Level Support Services Units Sustained	137	140	137	137

Source: FY 2023 National Expenditure Program

6.8 Table 12 presents the outcome and output indicators of three major DND programs with relatively bigger budget shares under the proposed 2023 budget—i.e., the Land Forces Defense Program (LFDP), the Air Forces Defense Program (AFDP), and the Naval Forces Defense Program (NFDP). Almost all of the 2021 actual values exceeded the targets except the following: (i) percent of tactical units provided to force employers that

are in prescribed readiness condition (*outcome indicator 1/LFDP*); (ii) number of tactical and ready reserve units maintained: a) tactical battalions and b) ready reserve battalions (*output indicator 1/LFDP*); (iii) number of supportable aircraft maintained (*output indicator 1/AFDP*); (iv) percent of flying hours flown (*output indicator 3/AFDP*); and (v) number of PN units prepared for deployment (*output indicator 2/NFDP*).

- 6.9 The DND exceeded the 2021 targets for the following indicators: (i) percent of ready reserve units in prescribed readiness condition (*outcome indicator 2/LFDP*); (ii) percent of operational readiness of tactical and ready reserve battalions (*output indicator 2/LFDP*); (iii) percent of accomplishment of one-hour response to flight-directed mission (*output indicator 2/AFDP*); (iv) percentage of naval units provided to unified commands (*outcome indicator 1/NFDP*); (v) number of PN units deployed and sustained for utilization/employment (*output indicator 1/NFDP*); (vi) number of PN units prepared for deployment (*output indicator 2/NFDP*), and (vii) number of force-level support services units sustained (*output indicator 3/NFDP*).

VII. COA FINDINGS AND RECOMMENDATIONS

- 7.1 The Commission on Audit (COA) is mandated by the Constitution (under Article IX-D) to submit to Congress an annual report on the financial condition and on the results of operations of all agencies of the government not later than 30 September of each year. Audits are conducted to ensure the integrity of fiscal and financial transactions of government. The Annual Audit Report (AAR) for each audited agency is posted at the COA website (www.coa.gov.ph).⁶

TABLE 13
STATUS OF IMPLEMENTATION OF COA RECOMMENDATIONS
(AS OF 31 DECEMBER 2021)

Particulars	Total	Fully Implemented		Partially Implemented		Not Implemented	
		Number	(%)	Number	(%)	Number	(%)
OSEC	30	15	50.0	-	-	15	50.0
GA	44	23	52.3	17	38.6	4	9.1
NDCP	5	2	40.0	-	-	3	60.0
OCD	48	31	64.6	-	-	17	35.4
PVAO (Proper)	55	38	69.1	-	-	17	30.9
VMMC	28	16	57.1	-	-	12	42.9
PA	38	15	39.5	-	-	23	60.5
PAF	67	48	71.6	-	-	19	28.4
PN	40	25	62.5	-	-	15	37.5
GHQ, AFP & AFPWSSUs	104	58	55.8	-	-	46	44.2

Source: 2021 Annual Audit Reports (Part 3). Available at www.coa.gov.ph.

⁶ RA 11640 (*GAA of 2021*), Sec. 91 of General Provisions) requires all government agencies to submit a status report on the actions taken on the audit findings and recommendations within 60 days from receipt of the COA report, copy furnished the DBM, Speaker of the House, Senate President, and the House Committee on Appropriations and the Senate Committee on Finance.

7.2 Table 13 presents the status of compliance of DND agencies to prior year' audit recommendations by COA as reported in the 2021 AARs. It shows that a total of 171 COA recommendations were unimplemented. Below are some of the audit recommendations that remain unimplemented as of December 2021:

Office of the Secretary (OSEC)

- *Inter-Agency Fund Transfers.* Failure of implementing agencies to fully liquidate long outstanding fund transfers totaling P42.2 million. Additional funds were transferred to implementing agencies despite previous unliquidated fund transfers. Management should refrain from transferring funds unless previous balances are fully liquidated (Part 3, p. 57).

Government Arsenal (GA)

- *Correctness and Validity of the Recorded Other Receivables.* Other Receivables Account amounting to P89 million were uncertain primarily due to doubtful collectability from the sale of scrap through barter amounting to P88.9 million. The Chief Accountant must determine the details and collectability, and stricter policies on the collection of receivable accounts have to be established (Part 3, pp. 112-113).

Office of Civil Defense (OCD)

- *Cash Advances (CAs).* Cash advances for special activities and travel expenses amounting P10.2 million remained unliquidated as of year-end. Management should require all Accountable Officers to stop the practice of granting additional CAs if previous are not yet liquidated, and to ensure that all CAs are fully liquidated at the end of the year (Part 3, pp. 106-108).
- *Fund Transfers.* Despite prior years undelivered Non-Food Items (NFIs) amounting to P169.9 million, the agency continued to transfer funds to the Procurement Service-Department of Budget and Management (PS-DBM) during the year totaling P275.9 million for NFIs. Management must make representation with PS-DBM to require the immediate delivery of the NFIs or request refund of the transfer funds (Part 3, p. 122).

Philippine Veterans Affairs Office (PVAO)

- *Fund Transfers.* Funds transferred to the Philippine International Trading Corporation (PITC) for the procurement of goods and services for three (3) projects worth P6 million aged three years were not implemented (as of 31 December 2020). Management should monitor the timeliness of procurement activities and progress of all projects outsourced to PITC (Part 3, pp. 98-99).

- *Pension Benefits Payable Accounts.* Poor monitoring of liquidation of pensions resulted in the accumulation of unliquidated pension remittances totaling P1.5 billion. COA requires the submission of list of pensioners to support the pension benefits payable account of P1.5 billion, and for the PVAO Accounting Section and the Bank Reconciliation Unit to identify and document all noted differences amounting to P937.6 million (Part 3, pp. 109-110).
- *Payment of Pension Benefits.* Despite the absence of authority from DBM, recovered pension fund from deceased and specific pensioners amounting to P245.8 million and P17.5 million, respectively, were utilized for the payment of regular monthly pension benefits. Management should justify the use of said funds not intended for its purpose, and to remit to BTr all recovered funds (Part 3, pp. 117-119).

National Defense College of the Philippines (NDCP)

- *Budgeting for Gender and Development (GAD).* The NDCP failed to comply with the mandatory requirement of allocating at least five percent (5%) of the total appropriations for GAD programs, projects, and activities (as required by RA 9710 and Section 31 of the General Provisions, 2020 GAA) (Part 3, pp. 54-55).

Veterans Memorial Medical Center (VMMC)

- *Cash Advances (CAs).* The agency granted multiple cash advances to Special Disbursing Officer (SDO) despite non-settlement of previous CAs. Management should comply with Section 89 of PD 1445 and stop granting additional CAs without liquidation of the previous (Part 3, pp. 103-104).

Philippine Army (PA)

- *Due from Officers and Employees and Other Receivables.* Failure of the Management to monitor liquidation of cash advances and enforce settlement of accounts resulted in P4.2 billion dormant accounts. COA recommends that the Chief Accountant conducts regular monitoring and analysis of receivable accounts (Part 3, p. 106).
- *Due from Government Owned and Controlled Corporation (GOCCs) balance of P9.1 billion* includes unutilized fund transfers amounting to P2.4 billion aged three years and above, which were not refunded by PITC to the PA nor remitted to the BTr. In compliance with EO 431 and COA Circular 94-013, Management must demand the immediate refund of unutilized balance, and remit the P2.4 billion to the Bureau of Treasury (Part 3, pp. 109-110).

- *Audit suspensions and disallowances* totaling P120.7 million remained unsettled. Meanwhile, the various accounting deficiencies in the financial transactions amounting to around P5 billion undermined the quality of the consolidated financial statement of the PA (Part 3, page 123).
- *Liquidations of the Quick Response Fund* totaling P50.8 million were not recorded in the books. Additionally, medical equipment bought thru PITC for P11.6 million were not delivered at year-end. COA recommends the immediate delivery of medical equipment by PITC, and to submit liquidation to Accounting Service Philippine Army (ASPA) (Part 3, p.125.)

Philippine Air Force (PAF)

- *Management leniency in the imposition of sanctions to delinquent tenants/concessionaires* resulted in the accumulation of receivables totaling P27.6 million. COA recommends the strict implementation of the Standard Operating Procedure (SOP) in the revocation of permit/contract of lease, and settlement of accounts (Part 3, p. 124).
- *Rebates earned from Petron Corporation* amounting to P510.5 million were not recorded in the books of the agency. Furthermore, only 17 projects amounting P67.6 million of the rebates earmarked for construction and repair of Petroleum, Oil Lubricant (POL) facilities were completed as of 31 December 2020 due to lack of specific timelines of project implementation in the Contract of Agreement between the DND and Petron Corporation. (Part 3, pp. 141-142).

Philippine Navy (PN)

- *Unremitted collections to the Bureau of Treasury (BTr)*. Collections for various receipts totaling P52.5 million were deposited to the PN Trust Receipt account instead of the BTr as required in Section 4 of the General Provisions of RA 11465 (FY 2020 GAA), and Section 2 of the Special Provisions for PN (Part 3, p. 145).
- *The Buildings and Other Structures (BOS) Account* of P1.5 billion was unreliable due to unrecorded 17 buildings, and 39 units of motor vehicles recorded in the books cannot be located. Management should determine the whereabouts and identify official responsible/liable for appropriate action (Part 3, p. 157).
- *Gender and Development Activities (GAD)*. The PN had implemented GAD responsive programs, activities and projects amounting to P10.2 billion or 35.2% of its total appropriations for 2020, However, GAD plan, budget, and accomplishment report were not submitted to the Philippine Commission on Women (PCW) for review and endorsement as required in PCW-DBM-NEDA Joint Memorandum Circular (JMC) No. 2012-01 (Part 3, p. 156).

General Headquarters (GHQ)

- *Accumulation of balance of Due from Officers and Employees.* Low collection turnover of receivables at the GHQ-CO, AFP-Real Estate Office (AFP-REO), and PSG from Military Officers and Enlisted Personnel for utility bills and rent of quarters resulted in the accumulation of Due from Officers and Employees account balance to P29.9 million as of 31 December 2020. Management should direct the GHQ Office of the Non-Appropriated Funds (ONAF), AFPREO and PSG Housing Base and Facilities Office (HBFO) to consistently send demand letters to all awardees with arrears, conduct an updated identification of the service and status of the military officers and enlisted personnel with dormant liabilities, and strictly enforce sanctions embodied in SOP 05-16 and Contract of Occupancy for late and non-payment of obligations (Part 3, pp. 184-186).
- *Unliquidated/Unused Past Due Cash Advances.* Past due cash advances totaling P84.2 million remained unliquidated as of 31 December 2020 and remained outstanding from 30 days to 43 years contrary to Section 89 of PD 1445. The balance includes P7.6 million accountabilities of officers who were either inactive, retired, deceased, separated, or AWOL from the service. Management should require the concerned Accountant's to strictly enforce liquidation of cash advances within the prescribed period (Part 3, pp. 209-210).
- *Unutilized Funds and Unremitted Collections to the Treasury.* Scholarship fund, donation, interest income and other unutilized funds totaling P469.1 million were not remitted to the BTr contrary to Sections 5 and 6 of the General Provisions of the FY 2020 GAA (Part 3, pp. 253-254).
- *Risk of loss of resources due to failure in investment.* The collectability of Scholarship Fund amounting to P42.1 million invested in Aviation Cooperative for Enhanced Services (ACES) in October 2016 is remote. Management should determine the liability of members of the Board of Trustees who approved the Resolution on the investment to ACES, and file an appropriate case against them. Exhaust all available avenues to collect the capital and interest earned from ACES (Part 3, pp. 276-277).

7.3 The following are some key COA observations listed in Part II of the 2021 AAR of the DND:

Philippine Army (PA)

- *Dormant Accounts.* Due from NGAs and Due from GOCCs include dormant accounts amounting to P20.3 million due to unavailability of historical data to support its existence (Part 2, Observation Nos. 2.8 to 2.12).

- *Terminated Construction Projects Remained Under Construction in Progress.* The 51st Engineer Brigade had no concrete back-up plans for further implementation of 20 construction projects with a total cost of P372.8 million which were terminated 7-10 years ago—thus, hindering the achievement of modernization and support to the Base Development Program of the Philippine Army (Part 2, Observation No. 9).
- *Unrecouped Advances to Contractors – 51st Engineer Brigade.* Advances to Contractors Account include unrecouped mobilization fees of P4.8 million paid to contractors whose projects had been terminated (from 2016-2019) due to non-performance of obligations (Part 2, Observation No. 10).
- *Non-compliance with Property Insurance Law.* The PA failed to comply with RA 656 (16 June 1951) also known as the Property Insurance Law, given that out of the total PPE account balances of P67.2 billion (excluding motor vehicles acquired in 2021), only P5.2 billion or 7.8% was covered with insurance (Part 2, Observation No. 18).
- *Enforcement of Settlement of Audit Suspensions, Disallowances and Charges.* Audit disallowances amounting to P112.4 million remained unsettled at year-end due to failure of the Management to strictly enforce settlement as prescribed under Sections 7.1.1 and 10.4 of COA Circular No. 2009-006 dated 15 September 2009 (Part 2, Observation No. 19).

Philippine Navy (PN)

- *Unremitted Collections to the Treasury.* Collections for various receipts totaling P79.9 million were deposited to the PN Trust Receipt Account instead of the BTr as required under Section 4 of the General Provisions of RA 11518 (FY 2021 GAA) (Part 2, Observation No. 10).
- *Unliquidated Cash Advances and Granting of Multiple Cash Advances (CAs).* Cash advances totaling P3.1 million remained unliquidated despite completion of the purpose for which these were granted. Moreover, additional CAs were granted to Accountable Officers with outstanding balances or in excess of their maximum cash accountability which is contrary to COA Circular No. 97-002 dated 10 February 1997 (Part 2, Observation No. 13).
- *COVID-19 Fund Receipts and Utilization.* Goods related to COVID-19 Response Procurement totaling P19.8 million remained undelivered as of 31 December 2021. Moreover, unutilized balance of P1.3 million or 14% of P9.1 million of the fund transfers from the Department of Health was not returned as prescribed by Section 4.9 of COA Circular No. 94-013 dated 13 December 1994 (Part 2, Observation No. 11).

General Headquarters (GHQ)

- *Undelivered project/equipment by the PITC.* Funds transferred to the PITC which was recorded under the AFP Modernization Act Trust Fund (AFPMATF)-CO as Due from GOCCs Account—amounting to P254.9 million for the procurement of essential equipment remain undelivered as of year-end (Part 2, Observation No. 3).
- *Unliquidated/Unsettled Past Due Cash Advances.* Unliquidated cash advances amounting P460 million as of year-end included P37.1 million in GHQ-CO which remained outstanding for more than 30 years contrary to COA Circular No. 97-002. Deficiencies in the grant and liquidation of cash advances were also observed in PMA, EASTMINCOM, and AFPHSC (Part 2, Observation No. 8).
- *Lapses in Monitoring of Pensioners.* Lapses in monitoring/non-updating of pensioners in AFP Pension and Gratuity Management Center (AFPPGMC) resulted in a higher rate of overpayment and incurrence of leakage cost due to uncollected pension benefits credited to accounts of unqualified and deceased pensioners amounting to P97.4 million (Part 2, Observation No. 9).
- *Flaws in the Pension Management Information System (PenMIS).* Incorrect/Outdated entries in the PenMIS and flawed application of pension laws resulted in over payment (P1.2 million) and under payment (P2 million) of pension benefits to 55 AFP Officers, which is contrary to Section 2 and 4 (4) of PD 1445 (Part 2, Observation No. 10).
- *Unutilized Funds Due to Non-Implementation of Programs and Projects.* Funds received by PSG and WESCOM amounting P2 million intended for Medical Assistance Program (MAP) and Localized Peace Engagement (LPE) were not utilized due to non-implementation of programs for which the fund was intended (Part 2, Observation No. 12).
- *Absence of Valid Contracts or MOA with Concessionaires.* Fifteen (15) concessionaires were permitted to operate within Camp Aguinaldo premises despite the absence of a valid MOA/Contract contrary to Section 7 of Executive Order No. 301 dated 26 July 1987 (Part 2, Observation No. 13).
- *Compliance with RA 9184 (GPR).* The awarding and issuance of Notice of Award of three contracts under the AFPMATF-CO were delayed (from 33 to 61 days). Also, the inadequate observance of EASTMINCOM of the Procurement Law in its 50 acquisitions through Small Value Procurement (SVP) amounting P10.9 million casts doubt on the validity of transactions and puts the government at a disadvantage position (Part 2, Observation No. 15).

Office of Civil Defense (OCD)

- *Unliquidated Due from LGUs Account.* Non-enforcement of liquidation and settlement of transferred funds to various LGUs resulted in the accumulation of long-outstanding account amounting P779.4 million as of 31 December 2021 (Part 2, Observation No. 2).
- *Unliquidated Cash Advances (CAs).* CAs granted to Special Disbursing Officers and various officers and employees amounting P3.3 million remained unliquidated as of year-end contrary to COA Circular No. 97-002 (Part 2, Observation No. 6).
- *Idle Facility/Building Structure.* The 2-1 facility building in RO-V remain idle and unoccupied with visible signs of damage and deterioration, thereby depriving the intended users of the additional facilities they can use in the performance of its functions (Part 2, Observation No. 8).

Veterans Memorial Medical Center (VMMC)

- *Deficiencies on the Grant and Liquidation of Cash Advances (CAs) to Special Disbursing Officers (SDOs).* CAs amounting P3.5 million remained unliquidated as of 31 December 2021 due to the inability of SDOs to submit liquidation reports on time. Moreover, the validity of financial transactions amounting P5.9 million could not be ascertained due to incomplete submission of documentary requirements to support the grant of additional CAs (Part 2, Observation No. 7).
- *Audit of COVID-19 Funds.* The validity and propriety of various COVID-19 related expenditures amounting P17.8 million could not be ascertained due to incomplete submission of documentary requirements to support said claims (Part 2, Observation No. 9).
- *In-Kind Donations from Local Sources.* The receipt, issuance, recording, and reporting of in-kind donations were not in accordance with COA Circular No. 2014-002 dated 15 April 2014 (Part 2, Observation No. 10).

National Defense College of the Philippines (NDCP)

- *Non-imposition of Liquidated Damages.* The agency failed to impose liquidated damages on the delays incurred by contractor on the repair of the NDCP main building ceiling at the 1st, 2nd and 3rd floors including Honor Hall with a total cost of P5.9 million, contrary to Sections 8.1 and 8.4, Annex E of the Revised IRR of RA 9184 (Part 2, Observation No. 1).

Office of the Secretary (OSEC)

- *Inter-Agency Fund Transfers.* The balance of Due from National Government Agencies (NGAs) account amounting P1.2 billion is unreliable and inaccurate due to: (a) long outstanding fund transfers totaling P31.2 million aged 6-36 years, (b) unreconciled difference of P69.7 million between the book balance of P737.8 million and the confirmed balance of P668.1 million, and (c) inadequate supporting documents on fund transfer of P5.5 million. Moreover, additional funds amounting P59.3 million were transferred to implementing agencies despite non-liquidation of previous fund transfers (Part 2, Observation No. 2).
- *Gender and Development (GAD).* The agency allocated only 2.4% or P11.8 million for GAD related programs, activities and projects contrary to the mandatory 5% of total appropriations of the agency (Part 2, Observation No. 5).

ANNEX
EXPENDITURE PROGRAM BY GENERAL EXPENSE CLASS, 2021-2023
(AMOUNTS IN MILLION PESOS)

Particulars	2021					2022					2023				
	PS	MOOE	CO	FinEx	TOTAL	PS	MOOE	CO	FinEx	TOTAL	PS	MOOE	CO	FinEx	TOTAL
OSEC	258.3	263.9	11.5	-	533.7	234.5	417.5	48.3	-	700.3	247.3	441.5	10.4	-	699.2
GA	302.6	1,010.0	59.6	-	1,372.1	353.2	988.2	132.1	-	1,473.5	366.0	1,072.1	0.0	-	1,438.1
NDCP	49.7	63.0	25.4	-	138.1	56.4	69.8	9.0	-	135.1	56.1	48.2	5.8	-	110.1
OCD	365.4	9,533.7	126.3	-	10,025.4	351.0	942.1	203.2	-	1,496.3	382.3	752.6	146.3	-	1,281.2
PVAO	9,928.4	595.7	62.7	0.015	10,586.8	168.7	444.9	22.9	0.023	636.5	175.7	436.4	3.5	0.023	615.6
VMMC	1,035.1	1,003.1	223.7	-	2,261.8	1,107.7	1,111.5	190.0	-	2,409.1	1,197.8	1,159.2	18.8	-	2,375.8
PA	84,538.3	15,806.7	2,532.1	-	102,877.1	84,437.8	16,618.2	2,087.1	-	103,143.2	90,431.2	17,825.3	1,618.0	-	109,874.6
PAF	16,704.0	14,711.6	200.2	-	31,615.8	15,582.5	16,597.2	3,701.0	-	35,880.6	16,613.1	18,549.6	251.0	-	35,413.7
PN	21,487.6	9,382.6	1,902.3	-	32,772.5	20,175.9	10,754.3	2,085.3	-	33,015.5	21,336.8	12,164.7	1,252.2	-	34,753.7
GHQ	76,598.6	8,311.1	37,309.1	-	122,218.9	6,639.6	6,215.1	29,116.7	0.019	41,971.5	8,005.7	6,133.2	40,000.0	0.019	54,138.9
Total	211,268.0	60,681.3	42,452.9	0.015	314,402.2	129,107.3	54,158.8	37,595.5	0.042	220,861.7	138,812.0	58,582.9	43,306.0	0.042	240,701.0

Source: FY 2023 BESF

EXPENDITURE PROGRAM BY GENERAL EXPENSE CLASS, 2021-2023
(AS PERCENT TO TOTAL AGENCY)

Particulars	2021					2022					2023				
	PS	MOOE	CO	FinEx	TOTAL	PS	MOOE	CO	FinEx	TOTAL	PS	MOOE	CO	FinEx	TOTAL
OSEC	48.4	49.4	2.2	-	100.0	33.5	59.6	6.9	-	100.0	35.4	63.1	1.5	-	100.0
GA	22.1	73.6	4.3	-	100.0	24.0	67.1	9.0	-	100.0	25.5	74.5	0.0	-	100.0
NDCP	36.0	45.6	18.4	-	100.0	41.8	51.6	6.6	-	100.0	50.9	43.8	5.3	-	100.0
OCD	3.6	95.1	1.3	-	100.0	23.5	63.0	13.6	-	100.0	29.8	58.7	11.4	-	100.0
PVAO	93.8	5.6	0.6	0	100.0	26.5	69.9	3.6	0	100.0	28.5	70.9	0.6	0	100.0
VMMC	45.8	44.3	9.9	-	100.0	46.0	46.1	7.9	-	100.0	50.4	48.8	0.8	-	100.0
PA	82.2	15.4	2.5	-	100.0	81.9	16.1	2.0	-	100.0	82.3	16.2	1.5	-	100.0
PAF	52.8	46.5	0.6	-	100.0	43.4	46.3	10.3	-	100.0	46.9	52.4	0.7	-	100.0
PN	65.6	28.6	5.8	-	100.0	61.1	32.6	6.3	-	100.0	61.4	35.0	3.6	-	100.0
GHQ	62.7	6.8	30.5	-	100.0	15.8	14.8	69.4	0	100.0	14.8	11.3	73.9	0	100.0
Total	67.2	19.3	13.5	0	100.0	58.5	24.5	17.0	0	100.0	57.7	24.3	18.0	0	100.0

Source: FY 2023 BESF

Note: 0 is less than 1%