

SENATE

Senate Bill No. 451

RECEIVED



INTRODUCED BY SEN. JINGGOY EJERCITO ESTRADA

EXPLANATORY NOTE

This bill restructures and redesigns the existing outmoded government accounting system. While studies have been made in the past, including one commissioned to a US consulting firm in the early 1950s by the Budget Commission, the system essentially dates back to the colonial period. This will be the first time the country will have a law to govern Government Accounting.

The draft of this bill was prepared by the Technical Working Group consisted of seasoned Certified Public Accountant (CPA) practitioners representing professional accounting associations, a representative from the Department of Justice advising on legal aspects, and CPA's from the Economic Affairs staff. Advice was also kindly provided by former Budget Secretaries. The professional accounting associations represented in the Technical Working Group were the Philippine Institute of CPAs (PICPA), Association of CPAs in Commerce and Industry (ACPACI), Association of CPAs in Public Practice (ACPAPP), Government Association of CPAs (GACPA), and Institute of Internal Auditors Philippines (IIAP).

The bill introduced reforms in the accounting service so that accounting may serve as an effective tool for managing government offices, as it does in private business. Accurate, relevant and timely financial information from the accounting system is essential for monitoring of programs and projects, budget control, economic analysis, policy formulation, decision-making, and spotting possible areas for anomalies.

Salient features of the bill include the following:

1. Reorganization of the Department of Budget and Management;
2. Identification of the purposes to be served by the government accounting system;
3. Institution of internal control systems as a primary responsibility of heads of agencies, government corporations and local government units;
4. Vesting responsibility in the Executive Branch for the accounting function as an essential element in management of the financial and fiscal affairs of Government;

5. Delimitation of the accounting jurisdiction of the Commission on Audit to:

- a. Promulgation of general government accounting principles;
- b. Keeping of the general accounts or unappropriated surplus accounts.

6. Creation of a Central Government Accounting Authority to be solely responsible for administration of the government accounting service and preparation of government wide financial reports.

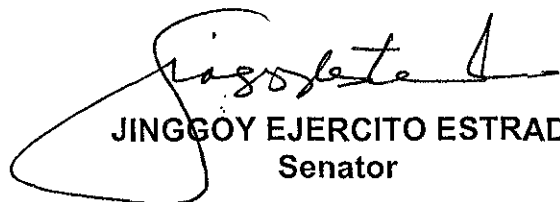
7. Adoption of the "accrual basis" of accounting in addition to the "obligation" and "cash accounting," so as to generate more useful financial information.

8. Delineation of accounting responsibilities of different agencies involved in the various functional accounting areas.

The bill will streamline and improve effectiveness of the financial and internal control system at different levels of the bureaucracy. At present, such control is not available to managers in government such that reliance is placed mainly on the Commission on Audit for the control on expenses and on use of the government's resources. The internal control system set up in this bill will provide government managers with the information and tools for more efficient, economical and effective management of government operations and resources. This should contribute to reducing red tape and, by providing timely and accurate information on transactions, help minimize the causes and incidence of graft and corruption in government offices.

The management tools that the system established in this bill are made available for the sincere and competent administrators to reduce graft and corruption in government offices.

In view of the foregoing considerations, early passage of this bill is earnestly sought.



JINGGOY EJERCITO ESTRADA
Senator

FIFTEENTH CONGRESS OF THE REPUBLIC
OF THE PHILIPPINES
First Regular Session

OFFICE OF THE CLERK
10 JUL -6 2:58

SENATE

Senate Bill No. 451

RECEIVED



INTRODUCED BY SEN. JINGGOY EJERCITO ESTRADA

AN ACT
PROFESSIONALIZING THE GOVERNMENT ACCOUNTING SERVICE TO
SERVE AS A TOOL FOR EFFECTIVE MANAGEMENT AND CONTROL OF
GOVERNMENT RESOURCES, CREATING FOR THE PURPOSE THE
GOVERNMENT ACCOUNTANCY OFFICE UNDER THE DEPARTMENT OF
BUDGET AND MANAGEMENT AND FOR OTHER PURPOSES

*Be it enacted by the Senate and House of Representatives of the Philippines in
Congress assembled:*

GENERAL PROVISIONS

SECTION 1. Title. This Act shall be known and cited as the "**Government Accounting Act of 2010.**"

SEC. 2. Declaration of Policy. All resources of government shall be managed, expanded or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal and/or improper disposition, with a view of ensuring efficiency, economy and effectiveness in government operations. The responsibility to uphold that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.

For this purpose, all government transactions shall be properly documented, recorded, classified and interpreted into meaningful data and communicated on a timely basis to fiscal authorities concerned so that the information generated therefrom can be made useful for economic analysis, policy formulation and decision-making purposes. The responsibility to document and record faithfully said transaction shall rest with government accountants.

SEC. 3. Definition of Terms. - Wherever used in this Act, the following terms shall be taken and understood in the sense indicated hereunder, unless the context otherwise requires:

1. "Government accounting" is the proper recording of all receipts and expenditures and other financial transactions of Government or any of its subdivisions, agencies or instrumentalities, the maintenance of records that reflect the propriety of transactions and give evidence of accountability for assets and other resources available for use, and the classification of data in a way that provides useful information for control and for effective and efficient management

of government operations, in accordance with generally-accepted accounting principles where applicable.

2. "Budgetary accounts" refers to the funds, resources, or surplus already appropriated and made available for government expenditure during a given fiscal year, consisting of appropriation, expenditure, revenue and borrowing accounts.

3. "General accounts" refers to the unappropriated surplus or uncommitted resource of the Government, the utilization of which shall require an enabling act of Congress.

4. "Resources" refers to the actual assets of any agency of the Government such as cash, instruments representing convertible to money, receivables, lands, buildings, as well as contingent asset such as estimated revenues applying to the current fiscal period not accrued or collected, and bonds authorized and unissued.

5. "Receipts" refers to all collections received by any collecting officer irrespective of source and for whatever purpose.

6. "Revenues" refers to earnings of the Government arising out of tax levies, regulatory and investment transactions, including those in exchange for direct services rendered by government agencies to the public.

7. "Income" refers to revenues earned during and accruing to the Government for a particular fiscal year.

8. "Accrued income" represents revenues earned during and pertaining to the current fiscal year not yet collected as of the end of the year.

9. "Obligation" represents goods and services ordered, without regard to when ordered, delivered or paid.

10. "Cost" represents value of goods and services consumed, without regard when ordered, delivered or paid.

11. "Disbursement" represents bills paid without regard to when the goods and services were ordered, delivered or paid.

12. "Expense" means any item or class of cost of (or loss from) carrying on an activity, a present operating cost, or representing an irrevocable cost or loss.

13. "Expenditure" means the incurring of a liability, the payment of cash, or the transfer of property for the purpose of acquiring an asset or service or setting a loss; when unqualified, the accrual basis of accounting is assumed.

14. "Surplus" is the excess of revenues over expenditures in a given fiscal year.

15. "Deficit" is the excess of expenditures over revenues in a given fiscal year.

SEC. 4. Fundamental Principle. – 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 legitimate public purposes;
- (3) Trust funds may be spent only for the purpose for which that trust was created or for which the funds were received.
- (4) Fiscal responsibility or accountability shall, to the greatest extent, be shared by all those exercising authority over the financial affairs, transactions, and operations of the agency;
- (5) Disbursement or disposition of government funds or property shall 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) General 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.

SEC. 5. Organizational and Functional Framework and Delineation of Accounting Responsibilities. – The organizational and functional framework and accounting responsibilities shall be delineated as follows:

(1) Pursuant to the primary fiscal responsibility of the agency head, management decisions and prerogatives of such agency head shall be respected by other government agencies, and the Commission on Audit shall be authorized only to review these decisions in accordance with its mandate;

(2) At the top level, the Government Accountancy Office (GAO) created under Section 9, shall be responsible for accounting of all resources of the Government. It shall provide overall technical supervision and direction of the agency accounting function and keep the budgetary accounts. It shall be responsible for the submission of the consolidated financial results of operation of the government.

(3) At the agency level, agency accountants shall be responsible for agency accounting functions. They shall be responsible for the preparation and submission of financial reports required by the agency head and higher fiscal authorities.

(4) The Bureau of Treasury in close coordination with the Government Accountancy Office shall be responsible for cash accounting and debt management.

(5) The Commission shall conduct audits of and prepare audit reports covering the overall financial operation of the Government. These audits shall be performed on a post-audit basis within a reasonable period of time from

submission of pertinent reports. It shall promulgate general accounting principles and keep the general or unappropriated surplus accounts.

CHAPTER I

BASIC POLICIES AND STANDARDS OF GOVERNMENT ACCOUNTING

SEC. 6. *Concept and Basic Features of Government Accounting.* -

Government accounting is a process in which the transactions of an operating agency are documented, classified, and recorded for the purpose of accumulating and providing financial information essential to the conduct of designated activities. It includes the design of accounting systems which involves: (1) the development of recording methods, (2) the documentation and review of financial transactions, (3) the maintenance of records and books of accounts, and (4) the preparation of financial and other reports.

SEC. 7. *Purposes of Government Accounting.* - The range of purposes to be served by government accounting is:

1. The accounting system shall be so designed to comply with the constitutional, statutory and other legal requirements and generally accepted accounting principles, when applicable.

2. The accounting system shall be related to the budget classifications since budgetary and accounting functions are complementary elements of financial management and therefore must be closely integrated.

3. The accounts shall clearly identify the objects and purposes for which funds have been received and expended, and the agency responsible for custody and use of funds in the program implementation;

4. The accounting system shall be maintained in a way to facilitate audit by external review authorities, and to readily furnish the information needed for an effective audit;

5. The accounting system shall permit effective administrative control of funds and operations, program management and internal audit and appraisal;

6. The accounts shall effectively disclose the economic and financial results of programs operations, including the measurement of revenues, identification of costs and determination of the operating results (the surplus or deficit position) of the government and its programs and organizations;

7. The accounting system shall be capable of serving the basic financial information needs of development of planning and programming, and the review and appraisal of performance in physical and financial terms; and

8. The accounts shall provide financial data useful for economic analysis and classification of governmental transactions, and assist in the development of national accounts,

SEC. 8. *General Standards of Government Accounting and Reporting.* - Government accounting shall adopt the following general standards.

1. Except as may otherwise be specifically provided by law, 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 property.

2. The accounting system shall basically serve the broad purpose of accountability and management needs;

3. The accrual basis of accounting shall be employed as a basic component of management of government resources in addition to the existing cash and obligation accounting;

4. All financial transactions shall be properly documented as the different phases of the transactions take place and shall be recorded on a double-entry basis;

5. A complete set of books of accounts shall be maintained by agencies to whom allotments or sub-allotments advices have been released; agencies without allotments or sub-allotments but have financial accountabilities shall keep appropriate books of accounts as required by the GAO;

6. The financial statements and accounting reports shall satisfy the information needs essential for purposes of : (a) budget accountability; (b) economic analysis, (c) policy formulation, (d) executive decision -making \, and (e) external audit;

7. Reports must present factual data useful for evaluation, monitoring and control of operations at different levels of management;

8. The basic accounting reports shall include the statement of fiscal operations, the balance sheet, costs of a given program or project, and statements of appropriation, allotment, obligation, expenditure and payable accounts and balances;

9. The accounting function shall be performed by persons with adequate knowledge of government accounting; and

10. An agency accounting manual shall be developed and maintained by each agency upon installation of its accounting system.

In accordance therewith, Section 63 to 124 of Presidential Decree No. 1445 and Sections 40 to 53, book V, Title I, Sub-title B, of Executive Order No. 292 are hereby repealed.

CHAPTER II CENTRAL GOVERNMENT ACCOUNTING AUTHORITY

SEC. 9. *Establishment of Central Government Accounting Authority.*

- There shall be created and established a Central Government Accounting Authority, herein referred to as the Government Accountancy Office (GAO), under the Department of Budget and Management (DBM) which shall be solely responsible for the technical supervision of accounting functions in all government agencies.

SEC. 10. *Statement of Objectives.* - The following are the specific objectives of the Government Accountancy Office:

1. To initiate government accounting reforms needed in achieving effective control of funds in-flow and out-flow without necessarily constricting agency management thus allowing them to assume greater fiscal responsibility as provided by law;

2. To improve accounting efficiency and capability at the agency operating level; and

3. To facilitate preparation and submission of accounting and other financial reports for budget accountability, management decisions, and external audit purposes.

SEC. 11. *Head of the Government Accountancy Offices; Deputies; Qualifications; and Salary.* -

1. The GAO be headed by an Accountant General whose rank shall be equivalent to a Department Undersecretary. He shall be assisted by two deputies, whose ranks shall be equivalent to Department Assistant Secretaries.

2. The Accountant General shall be appointed by the President for a term of seven (7) years. The Deputies shall be chosen by the President from among the Career Executive Services (CES) eligibles. In no case shall any one of them be appointed or designated in a temporary or acting capacity.

3. The Accountant General and each deputy shall receive an annual salary as may be provided by law.

SEC. 12. *The Office of the Accountant General.* -

1. The Office of the Accountant General shall determine policies, promulgate government accounting rules and regulations and prescribe accounting systems, procedures and techniques and standards governing the performance by the agency of its duties and functions.

2. It shall also formulate measures on internal control to ensure accuracy, integrity and reliability of accounting records and reports.

SEC. 13. *The Central Offices and Regional Accounting Services.* -
The GAO shall organize offices to handle the following areas of accounting:

- (1) technical accounting services;
- (2) administration of chart of accounts and maintenance of budgetary control accounts;
- (3) systems and training;
- (4) national government accounting;
- (5) local government accounting;
- (6) government corporation accounting;
- (7) financial management information; and
- (8) decentralized accounting services.

These offices shall perform primarily staff functions, exercise technical supervision over the agency accounting services, and perform such other functions as may be assigned by the Accountant General.

CHAPTER III JURISDICTION, POWERS AND LINKAGES

SEC. 14. *General Jurisdiction.* - The following powers and duties shall be within the functional jurisdiction of the Government Accountancy Office, to wit:

- (1) The design and prescription of accounting and financial reporting systems,
- (2) The administration of the Government Chart of Accounts;
- (3) The keeping of the central books of accounts of the Government; and
- (4) The preparations of government-wide management accounting and

SEC. 15. *Keeping the Books of Appropriated Funds of the National Government.* - The Department of Budget and Management thru the Government Accountancy Office shall keep and maintain the central books of accounts of the appropriated funds of the National Government.

SEC. 16. *Examining Authority.* - The GAO shall have the authority to examine the agency books of accounts for the purpose of ascertaining whether financial transactions are properly recorded and to determine compliance with budgetary and accounting rules and regulations.

SEC. 17. *Power to Withhold Release of Funds.* - The GAO shall have the authority to withhold the release of notice cash allocation to agencies which have not complied with the financial reporting requirement fifteen (15) working days after the prescribed deadline for its submission.

SEC. 18. *Power to Exact Compliance with Financial Reporting Requirements.* - The GAO shall have the power to exact strict compliance with timely financial reporting requirements from all agencies of the Government.

SEC. 19. *Adjustment of Accounts between Agencies.* - The GAO shall have the power, under such regulations as it may prescribe, to authorize and enforce the adjustment of accounts subsisting between various agencies of the Government.

SEC. 20. *Collection of Indebtedness due the Government.* - The GAO 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 agencies, in the settlement and adjustment of its accounts. If any legal proceeding is necessary to that end, the GAO 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 GAO 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 GAO.

SEC. 21. *Submission of the Annual Consolidated Financial Report.* - The GAO, thru the Secretary of the Department of Budget and Management, shall submit within four (4) months after the end of the fiscal year, to the

President, Congress and the Commission on Audit, an audited annual consolidated financial report reflecting the results of government operations.

CHAPTER IV AGENCY ACCOUNTING FUNCTIONS

SEC. 22. *Organization and Functions.* - There shall be created in every government agency an accounting group to be headed by an accountant administratively under the head of the agency or under the financial management service, but technically under the GAO who shall perform the following functions:

- (1) Maintain the agency books of accounts;
- (2) Analyze, record, classify and summarize all transactions involving the receipt and disposition of government funds and property;
- (3) Prepare financial statements and interpret the results of financial operations for agency management decision-making purposes;
- (4) Prepare regular financial reports for the budgetary control purposes for guidance of agency management and for reporting to the DBM through the GAO;
- (5) Prepare and submit accounting reports required by the Commission on Audit; and
- (6) Certify to availability of funds.

SEC. 23. *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 provide 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 erroneous, inaccurate or misleading information.

SEC. 24. *Recording of Financial Transaction.* - Each government agency shall record its financial transactions and operations conformably with generally accepted accounting principles and in accordance with pertinent laws and regulations, and by using the standard chart of accounts as prescribed by the GAO.

SEC. 25. *Financial and Physical 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 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 and should be signed by agency heads and the Chief accountants who must be Certified Public Accountants indicating his CPA certificate number.

(3) The physical reports shall include the identification of the approved units or work measurements, work targets, work accomplished and manpower utilized for each budgeting functions, program or project.

SEC. 26. Submission of Reports. -

(1) All heads of accounting units shall submit within two (2) months after the end of the fiscal year, to the GAO and the Commission on Audit, an annual financial report reflecting the results of the agency or program operations.

(2) Whenever deemed necessary in the exigencies of the service, the GAO 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, including physical performance indicators report.

(3) Failure on the part of the officials concerned to submit the required documents and reports at the time mentioned herein shall automatically cause the suspension of payment of their salaries until they shall have complied with the requirements of the GAO.

(4) Any other violation of the provisions of this Section shall likewise cause the suspension of payment of salaries, without prejudice to any other disciplinary action that may be instituted against such concerned official or employee.

**CHAPTER V
INTERNAL CONTROL SYSTEM**

SEC. 27. Concept 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, promote administrative and operational efficiency and encourage adherence to prescribed managerial policies.

SEC. 28. Installation of Internal Control System. - The installation and implementation of a sound system of internal control shall be the direct responsibility of the agency head. For this purpose, such agency head shall ensure that all actions of the officials concerned are properly monitored and coordinated.

SEC. 29. Internal Control System. - Subject to the provisions of existing laws, rules and regulations and this Act, each Agency shall set up internal control systems for the following areas:

1. Cash receipt and disbursement
2. Property, supplies and other inventory items;
3. Accounting and bookkeeping;
4. Personnel recruitment, promotion and separation; and
5. Procurement, purchases, storage, requisitions, issuance and disposal.

SEC. 30. Organization. - There shall be created in every government agency an internal control unit which shall be responsible for assuring that steps are taken to safeguard the assets of the agency, checking the accuracy and reliability of the accounting data, promoting administrative and operational efficiency, encouraging adherence to prescribed managerial policies, and may conduct such other activities to achieve these ends.

For this purpose, the agency head may absorb as member/s of the staff of the internal control unit the resident COA personnel at the time of the effectivity of this Act.

SEC. 31. Functions. - The internal control unit shall have the following functions:

1. Conduct spot cash audit of regular/special collecting disbursing officers of the agency.
2. Pre-Audit agency transactions.
3. Review contracts before awarding.
4. Inspect properties delivered.
5. Certify unserviceable and condemned equipments before replacement and disposal.
6. Keep custody, and be responsible for the safekeeping and preservation of paid expense vouchers, journal vouchers, stubs of treasury warrant or checks, reports of collections and disbursements and similar documents together with their respective supporting papers.

Subsection 1 to 4 may be performed by the internal control unit on test basis or sampling method, in accordance with the implementing rules and regulations to be issued by GAO.

SEC. 32. Reporting Responsibilities. - The head of the internal control unit shall submit reports directly to the head of the agency, copy furnished the DBM and the Commission on Audit, of his findings, observations and recommendations to maintain a sound financial management of the agency resources.

SEC. 33 Liability of the Head of the Internal Control Unit. - All management reports required by central fiscal agencies shall be certified correct by the central fiscal agencies shall be certified correct by the head of the internal control unit and the agency head who will shall be liable solidarity with each other for any malfeasance, and misrepresentation which may later on the discovered by appropriate authorities.

SEC. 34. Implementing Rules and Regulations. - As part of its functions, the GAO in coordination with the Commission on Audit shall develop and promulgate internal control standards and procedures to be adopted by all government agencies.

SEC. 35. Technical Supervision. - The Government Accountancy Office shall provide technical supervision and support in the development, installation and implementation of the agency internal control system.

SEC. 36. *Management Audit.* - As the exigency of the service requires, the Department of Budget and Management shall conduct management audit of government agencies to check on management adherence to prescribed internal control standard and effect immediate remedial measures if existing internal control system is found weak and inadequate.

FINAL PROVISION

SEC. 37. *Reorganization of the Department of Budget and Management.* - Within sixty (60) days after the approval of this Act, the Department of Budget and Management shall reorganized its functions and structure in accordance with the provisions herein.

SEC. 38. *Administrative Disciplinary Action.* - Subject to such rules and regulations as may formulated by GAO and approved by the President, any unjustified failure by the public officer concerned to comply with any requirement imposed in this Act 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 Act shall be conclusive proof that the public officer concerned is notoriously undesirable and corresponding penalties shall be imposed accordingly.

SEC. 39. *Penal Provisions.* - Any violation of the provisions of this Act or any rules and regulations issued pursuant thereto, shall be punishable by a fine not exceeding Five hundred thousand pesos (P500,000.00) or by imprisonment for a period not exceeding twelve (12) years or both, in the discretion of the court, without prejudice to the provisions of the Anti-Graft and Corrupt Practices Act and other applicable laws. In addition thereto, the penalty of perpetual disqualification from holding any public office and/or temporary disqualification from exercising any calling or profession shall be imposed when the court deemed it appropriate.

Any proceeds obtained by reason of any violation of this Act or any rules and regulations issued pursuant thereto shall be forfeited in favor of the Government.

SEC. 40. *Appropriation.* - The necessary appropriations to implement the provisions of this Act consisting of the annual operating expenses of the Offices, including the salaries, allowance and other emoluments of all the its officials and employees 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.

SEC. 41. *Implementing Rules and Regulations.* - The GAO shall formulate and issue the necessary implementing rules and regulations, except as otherwise specifically provided in this Act.

SEC. 42. *Separability Clause.* - Should any provision of this Act 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.

SEC. 43. Repealing Clause. - All laws, executive orders, proclamations, decrees, instructions, rules and regulations; or part thereof, which are inconsistent or in conflict with any provision of this Act shall be deemed repealed or modified accordingly.

SEC. 44. Effectivity Clause. - This Act shall take effect thirty (30) days after its complete publication in the Official Gazette or in complete publication in the newspaper of general circulation.

Approved,