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Creative Accounting and Accountability Failures in the Philippine Health Sector: A Case Study of PhilHealth during COVID-19

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Abstract

This study investigates creative accounting practices in the Philippine Health Insurance Corporation (PhilHealth), focusing on financial manipulation and accountability breakdowns during the COVID-19 pandemic. The current paper uses a qualitative case study and document analysis of government audit reports, legislative inquiries, and media investigations (2018–2021) to reveal how procurement irregularities, unliquidated cash advances, and disguised operating losses distorted the agency's financial position. These practices, facilitated by weak internal controls and governance failures, undermined transparency and jeopardized the implementation of universal health care. Anchored in public sector accountability and creative accounting theories, the study concludes with actionable recommendations, including the institutionalization of forensic audits, digital transparency reforms, and stronger whistleblower protections. The findings underscore systemic weaknesses that enabled financial misreporting and highlight the pressing necessity for structural reforms in public financial management.

Keywords: accountability, audit, creative accounting, corruption, PhilHealth, public sector, universal health care.

Introduction

Creative accounting, often associated with aggressive financial reporting, poses severe risks in public institutions where transparency and accountability are vital. In the Philippine context, the Philippine Health Insurance Corporation (PhilHealth) has become a focal point of controversy due to alleged financial mismanagement, particularly during the COVID-19 pandemic—a period

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marked by intense political centralization and weakened institutional checks (Magno & Teehankee, 2022).

Between 2018 and 2021, multiple reports from the Commission on Audit (COA), Senate investigations, and media exposés revealed questionable transactions, overstated claims, and unliquidated cash advances within PhilHealth. These revelations suggest the use of creative accounting mechanisms that masked the real financial condition of the agency. With PhilHealth serving as the central vehicle for implementing the Universal Health Care (UHC) Act, such malpractices threaten not only fiscal integrity but also the health rights of Filipino citizens.

This paper explores the nature and extent of these manipulations and provides a case analysis using publicly available data, audit memos, and legal frameworks. Affixed in the need for reform, the study contributes to the literature on financial accountability in the public health sector. Specifically, it analyzes the mechanisms and effects of creative accounting within PhilHealth (2018–2021) and recommends institutional reforms to enhance financial transparency.

Review of Related Literature

Creative Accounting in the Public Sector

Creative accounting, in simple terms, is the legal bending of financial reports to make an organization look better than it really is. Though this is often tied to big private-sector scandals—think Enron or WorldCom—it's not limited to them. It shows up in government too. Some researchers have warned that public agencies use these tactics to hide deficits or make things look more efficient than they actually are (Obermann et al., 2018; Cardoso & Fajardo, 2014). As Cardoso and Fajardo put it, it's less about real improvement and more about hitting political targets or manipulating the numbers. The real issue? It chips away at transparency. And when there's little accountability, public trust takes a hit. That's exactly what many believe happened in the PhilHealth case, where numbers may have been tweaked to hide deeper problems in governance and spending.

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Public Sector Accountability and Audit Mechanisms

In the Philippines, accountability mechanisms are codified through laws such as the Anti-Graft and Corrupt Practices Act (1960), the Revised Government Accounting System, and the mandates of COA. However, weak enforcement and political interference frequently hamper their effectiveness (Navallo, 2021; COA, 2020). Globally, scholars emphasize the role of sound public sector accounting practices in promoting fiscal transparency and curbing corruption. Amalia (2023) highlights that enhancing transparency in financial reporting systems is critical to building public trust and ensuring efficient use of resources. Augustine (2025) similarly argues that effective auditing at the local government level plays a key role in promoting ethical conduct, strengthening accountability, and improving public service delivery—especially in developing countries. This view helps contextualize what unfolded at PhilHealth during the COVID-19 pandemic, when audit reports exposed major concerns in areas such as procurement, fund transfers, and the liquidation of cash advances.

In addition, several studies from Southeast Asia suggest that factors like budget lobbying and the loosening of audit oversight in government-owned and controlled corporations (GOCCs) can open the door to systemic financial irregularities. Seen through this lens, the irregularities in PhilHealth's financial operations appear less like isolated cases and more like symptoms of deeper structural issues within public sector governance.

PhilHealth's Role in UHC and COVID-19 Response

PhilHealth, established under the National Health Insurance Act of 1995, was given a central role in carrying out the Universal Health Care (UHC) Act of 2018. However, its credibility came under intense scrutiny during the COVID-19 pandemic following reports of overpriced IT equipment, questionable COVID-related benefit packages, and opaque financial transactions (Gavilan, 2020; Ravelo, 2020). In the wake of these controversies, scholars have evaluated the rollout of the UHC law during the crisis, noting both areas of progress and ongoing challenges—particularly in achieving equity and sound governance (Lee, Gomez, & Paz, 2023; Domingo et al., 2023; Co et al., 2024). Collectively, these assessments point to an urgent need for stronger

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oversight mechanisms and deeper institutional reforms if PhilHealth is to deliver on the core promises of universal healthcare.

METHODOLOGY

This study adopts a qualitative case study approach, well-suited for exploring intricate organizational issues like financial manipulation and governance failures within public institutions. By focusing on the Philippine Health Insurance Corporation (PhilHealth), the research draws on a particularly illustrative case that sheds light on how creative accounting techniques can emerge and persist in the context of the public sector.

Given the high-profile nature of the PhilHealth controversy and the availability of extensive public records, the study relies primarily on documentary analysis for data collection. This method is particularly well-suited for scenarios where direct access to key individuals is restricted, and where official documents and media sources offer rich and verifiable information.
The data set includes:

- **Commission on Audit (COA) reports and audit memoranda** from 2019 to 2020 that highlight inconsistencies in financial reporting and fund disbursement;
- **News articles and investigative features** from established media outlets such as ABS-CBN News, Rappler, and CNN Philippines that chronicle the progression of the PhilHealth scandal;
- **Legislative documents**, including the Bayanihan to Heal as One Act, the Universal Health Care Act, and records of Congressional hearings and testimonies;
- **Official statements and disclosures** from PhilHealth, the Department of Health (DOH), and other relevant oversight bodies.

To guide the analysis, the study adopts Bowen's (2009) framework for document analysis, which involves systematic skimming, close reading, coding, and interpretation of texts to uncover themes, contradictions, and signs of financial manipulation. Cross-referencing findings across multiple sources enhanced the reliability and credibility of the results.

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This methodology is particularly well-suited to the research goals, as it allows for a retrospective examination of real-world events using publicly accessible evidence. Moreover, it avoids the ethical and practical complications of interviewing high-profile or politically sensitive figures. The use of document analysis within a qualitative case study structure ensures methodological transparency and enables a grounded assessment of how creative accounting practices emerged within PhilHealth.

In line with Bowen's document analysis method, the research followed a two-stage process: an initial round of skimming for familiarization, followed by close reading and open coding. The study examined materials from 2018 to 2021, including COA audit reports, Senate hearing transcripts, investigative journalism pieces, and internal PhilHealth documents. Recurring terms such as "unliquidated funds," "overpriced IT systems," "interim reimbursement mechanisms," and "lack of board oversight" were identified and manually coded. These codes were clustered into broader categories—such as governance breakdown, transparency issues, and fiscal mismanagement—which formed the basis for thematically interpreting the use of creative accounting in the PhilHealth case.

Limitations

The findings of this study are informed solely by secondary data sources. While triangulation was employed to strengthen the credibility of the analysis, the absence of direct access to internal records or firsthand accounts may have constrained deeper organizational insights. Even so, the breadth of publicly available evidence provides a strong foundation for assessing PhilHealth's accountability practices and financial integrity.

FINDINGS: CREATIVE ACCOUNTING MECHANISMS AND GOVERNANCE FAILURES IN PHILHEALTH

This section draws on Commission on Audit (COA) reports, Senate hearings, and reputable media investigations to examine the case of PhilHealth. The analysis highlights how certain accounting practices—while often framed as routine—were used in ways that obscured financial realities and eroded both transparency and public confidence.

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Exploiting Loopholes in Procurement and Disbursement

PhilHealth's purchase of overpriced IT equipment and the release of COVID-19 benefit packages without proper supporting documents indicate a deliberate effort to sidestep procurement regulations (COA, 2020). These actions mirror common creative accounting techniques, particularly aggressive capitalization—where expenses are recorded as assets to enhance the appearance of financial stability. By reclassifying expenditures and evading standard oversight procedures, the agency was able to mask the actual costs of its pandemic response while projecting an image of operational competence.

Unliquidated Funds and Cash Advances

The 2019 and 2020 COA reports flagged substantial unliquidated cash advances, particularly under the **Interim Reimbursement Mechanism (IRM)**. These funds were released even to non-COVID-accredited hospitals (COA, 2020), allowing PhilHealth to prematurely recognize expenses or obligations and project responsiveness. This constitutes a form of **earnings management**, where timing of expense recognition is distorted to achieve political or budgetary goals, masking underlying liquidity constraints.

Disguised Operating Losses and Budget Padding

PhilHealth's financial reports omitted actuarial deficits and presented unreconciled data in internal meetings (Cabading, 2020). These actions mirror creative accounting behaviors such as **budget padding** and **off-balance-sheet reporting**, both of which are aimed at concealing operational weaknesses. By presenting a distorted version of its financial health, PhilHealth sought to maintain public trust and congressional funding, despite its deteriorating actuarial reserves.

Governance Failures and Institutional Complicity

Task Force PhilHealth and Senate investigations revealed entrenched corruption, weak internal controls, and resistance to reform among top officials (Reganit, 2020; ABS-CBN News, 2020). The **absence of whistleblower protection and collusion in high-level decision-making** created

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a permissive environment for creative accounting. These findings underscore that creative accounting in the public sector is not merely a technical issue—it is deeply rooted in governance failures and a lack of accountability structures.

CONCLUSION

The PhilHealth case sheds light on how creative accounting, when left unchecked, can seriously damage public institutions—especially those with mandates as vital as health care. What happened wasn't simply a series of oversights. The misuse of procurement procedures, the failure to liquidate advances, and the manipulation of budgets and financial reports suggest something more systemic. These practices masked inefficiencies, enabled questionable use of public funds, and, in the end, weakened the trust people place in government institutions.

But this isn't just about one agency. The case points to a bigger issue: when public offices have wide decision-making powers but lack strong oversight, the temptation—and opportunity—for financial manipulation grows. And during high-pressure periods like the COVID-19 pandemic, that risk becomes even greater. In this sense, PhilHealth serves as a warning of what can go wrong when governance falters.

To move forward, reforms are clearly needed. Things like better internal auditing, stronger whistleblower protections, and more transparent digital systems could help. But beyond systems, there's also a need for values—specifically, ethical leadership and a real commitment to accountability. Without both structural and cultural change, the same vulnerabilities will remain.

RECOMMENDATIONS

1. **Make Forensic Audits Routine in Public Agencies**. To better detect and prevent financial irregularities—such as overpricing, hidden transactions, or misclassified expenses—the government should consider requiring regular forensic audits in agencies that manage large public funds, like PhilHealth. These aren't just routine checks; forensic audits can dig deeper and reveal patterns of creative accounting that often go unnoticed, ultimately helping to reinforce financial transparency and accountability.

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2. **Give More Power and Protection to Internal Audit Units**. In the PhilHealth case, internal controls were too weak to catch procurement abuses and inflated budgeting. This highlights the need to strengthen internal audit units by giving them secure tenure, independent reporting lines, and legal safeguards. When auditors have real authority and protection, they're more likely to flag irregularities early—and less likely to be sidelined or influenced.

3. **Use Digital Tools to Improve Transparency**. One of the key enablers of fund misuse was the absence of real-time oversight. To address this, public agencies should roll out digital dashboards that allow both internal teams and the public to monitor how funds are being spent—from procurement to disbursements. These tools don't just make information more accessible; they also discourage manipulation by creating a more open system of accountability.

4. **Update the National Health Insurance Law**. The National Health Insurance Act needs an overhaul—specifically, to tighten financial accountability rules. Possible amendments could include stronger penalties for misreporting, expanded audit authority for the Commission on Audit (COA), and firm deadlines for submitting financial documents. These updates would help plug the legal gaps that currently allow creative accounting to slip through the cracks.

5. **Encourage Ethical Leadership and Protect Whistleblowers**. The resistance to reform—and the apparent complicity among some officials—points to a deeper need for ethical leadership in public service. Alongside this, a strong whistleblower protection program is essential. This means ensuring anonymity, shielding whistleblowers from retaliation, and offering legal support. People are more likely to come forward when they know they'll be protected. At the same time, leaders must be trained and rewarded for upholding integrity, not just compliance.

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