

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. The existence, completeness, and valuation of the Property and Equipment (PE) account balance of P49.705 billion as of December 31, 2021 could not be ascertained due to: a) variance of P20.745 billion between the balances per books of accounts and the Report on the Physical Count of Property, Plant and Equipment (RPCPPE); b) variance of P121.128 million between GL and SL balances as of December 31, 2021; c) erroneous measurement of several parcels of land resulting in the overstatement of Land account by P668.333 million; d) non-recording of various items of Property and Equipment accounts for Area Centers in the books of accounts resulting in the understatement of the accounts; e) erroneous recording of transactions and misclassifications of accounts resulting in misstatements of various PE and other related accounts; f) non-derecognition of unserviceable properties resulting in overstatement of PE accounts; and g) unavailability of Certificate(s) of Title to assert CAAP's ownership on 72 parcels of land.
 - 1.1. Paragraph 15 of Philippine Accounting Standards (PAS) No. 1 *Presentation of Financial Statements* states that:

“The financial statements shall “present fairly” the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. xxx.” (underscoring supplied)
 - 1.2. Internal control as defined by the International Organization of Supreme Audit Institutions Guidelines for Internal Control Standards for the Public Sector (INTOSAI GOV 9100) is an integral process that is effected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:
 - executing orderly, ethical, economical, efficient and effective operations;
 - fulfilling accountability obligations;
 - complying with applicable laws and regulations; and
 - safeguarding resources against loss, misuse and damage.
 - 1.3. Internal control is a dynamic integral process that is continuously adapting to the changes an organization is facing. Management and personnel at all levels have to be involved in this process to address risks and to provide reasonable assurance of the achievement of the entity's mission and general objectives.

- 1.4. Analysis of the PE transactions revealed the following deficiencies:
- a. **Variance of P20.745 billion between the balances per books of accounts and the Report on the Physical Count of Property, Plant and Equipment (RPCPPE)**
- 1.5. To ensure that internal control measures on PE are implemented, item nos. 5.1 and 5.12 of COA Circular No. 2020-006 re: *Guidelines and procedures in the Conduct of Physical Count of PPE xxx for the One-Time Cleansing of PPE Account Balances of Government Agencies* states that:
- “5.1 Each government agency shall conduct physical count of all its PPE, whether acquired through purchase or donation, including those constructed by administration and found at station.” xxx*
- 5.12 Property records shall be updated based on the results of the physical inventory and reconciled with the accounting records to come up with the reconciled balances of PPE accounts to be considered as the correct balance of the agency’s PPEs.”*
- 1.6. Physical stock-taking is an indispensable procedure for checking the integrity of property custodianship. In all cases, physical inventory taking should be regarded with importance.
- 1.7. The RPCPPE is the form used to report on the physical count of PPE which are owned by the agency.
- 1.8. Comparison between the balances per books of accounts and RPCPPE of CAAP - Head Office (HO), Area Centers (ACs) V (Naga and Masbate Airports), VI, IX, and XI - Davao International Airport (DIA) showed a variance of P20.745 billion as shown in Table 1 below:

Table 1. Variance between balance per books of accounts and RPCPPE

Location	Per books of accounts	Per RPCPPE	Variance
AC VI	P 16,314,903,053	P 7,198,674,539	P 9,116,228,514
AC XI-DIA	7,488,786,428	422,298,849	7,066,487,579
CAAP-HO	4,845,115,626	782,498,090	4,062,617,536
AC IX	6,248,990,225	6,019,940,153	229,050,072
AC V-Naga	202,281,941	56,615,701	145,666,240
AC V-Masbate	156,500,262	31,910,338	124,589,924
	P 35,256,577,535	P 14,511,937,670	P 20,744,639,865

- 1.9. Results of the Audit Team's validation and inquiry disclosed some of the causes of the variance as follows:
 1. Non-inclusion of real properties, i.e. land, land improvements, airport systems, buildings, and other structures in the RPCPPE of CAAP-HO, ACs VI, IX, and XI;
 2. Lack of vital information such as costs, property numbers, etc. for several properties in ACs V, IX, and XI;
 3. Different costing methods used by the Accounting Division (AD) and Supply Division of CAAP-HO and AC V; and
 4. Disposed PEs were not derecognized in the books of accounts of CAAP-HO.
- 1.10. Moreover, the Inventory Committee of ACs VIII and XII were not able to complete the conduct of physical count/inventory taking of properties in various airports, resulting in the non-preparation of the RPCPPE or Physical Inventory Report.
- 1.11. The unreconciled variance and the inability to conduct a complete physical count of PE resulted in unreliable and inaccurate balances of PE accounts as of December 31, 2021 which also cast doubt on the existence of the recorded PE as well as the integrity of property custodianship.
- 1.12. **We recommended that Management direct:**
 1. **CAAP-HO, Area Centers V, VIII, IX, and XII to require the Inventory Committee, in coordination with the Supply and Accounting Divisions, to consider the guidelines and procedures in the conduct of physical count of PPE prescribed under COA Circular No. 2020-006 dated January 31, 2020 and plan/strategize on how to conduct and complete the physical inventory-taking within the prescribed period;**
 2. **CAAP-HO, Area Centers V, XI, and XII to instruct the Inventory Committee, in coordination with Supply and Accounting Divisions, to prepare and update regularly the RPCPPE;**
 3. **CAAP-HO:**
 - a. **Accounting Division and Supply Division to make a detailed analysis of items recorded as PE, categorize/classify each item in accordance with COA Circular No. 2020-002 re: *2019 Revised Chart of Accounts for Government Corporations*, and reconcile regularly their records to establish the accuracy of the recorded balances of the PE accounts;**
 - b. **Prepare the necessary adjustments to reflect the correct balances of the PE accounts in the financial statements;**

- 4. Area Center V to constitute an Inventory Committee;**
- 5. Area Center VI Accountant and Supply Officer to exert effort to reconcile the Property and Equipment (PE) accounts with Supply Division's records;**
- 6. Area Center IX to require the maintenance of accounting and property records and conduct regular reconciliation to facilitate the identification of discrepancies and adjust the errors noted, if any; and**
- 7. Area Center XI:**
 - a. Property Control/ Supply Unit to Report PEs in the RPCPPE by type to facilitate comparison and reconciliation of PE balances with that of the Accounting Unit; and**
 - b. Reconcile the PE records of both the Property Control/Supply Unit and the Accounting Unit taking into consideration the procedural guidelines provided under COA Circular No. 2020-006.**

1.13. Management commented that:

CAAP-HO AD would coordinate with CAAP-HO Supply Division to prepare the guidelines and procedures for the conduct of physical count of PE. CAAP-HO Supply Division added that they are working with CAAP-HO AD in continuously updating and reconciling the RPCPPE, accounting and property records, including the detailed analysis of the PE items. The Chief Accountant further committed to prepare the necessary adjustments to establish the accuracy of the recorded book balances.

1.14. Meanwhile, AC V Management agreed with the audit recommendations while the reconciliation of the PE accounts of AC VI is ongoing between the airports' property custodians and the Area Finance.

1.15. Moreover, AC VIII had already conducted the physical inventory of all properties and submitted the reports to the Audit Team. Management also added that transferring the Physical Inventory Report into the prescribed form of RPCPPE is in progress.

1.16. AC IX Management commented that the physical inventory is already completed for satellite airports of AC IX in accordance with an inventory plan prepared by the Committee. Possible problems in the conduct of one-time cleansing of PE were identified and would be discussed to be able to successfully cleanse the accounts. Further, Management committed to comply with the audit recommendations.

1.17. Further, the Acting Area Manager of AC XI mentioned that the non-reconciliation of the PE balances between the accounting and supply records is crucial because of the impending turnover of the airport to the Davao

International Airport Authority. It was also noted that some of the properties procured at CAAP-HO lack information such as the cost and property number.

- 1.18. Lastly, AC XII Management commented that the Inventory Committee would resume with the conduct of complete physical count/inventory of the assets and would submit to COA and Accounting Unit the result of the inventory undertaking for reference in the proper adjustments of the recording of assets of the area.

b. Variance of P121.128 million between GL and SL balances as of December 31, 2021

- 1.19. The *Conceptual Framework for Financial Reporting* states that “If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.”

- 1.20. It also provides that:

“2.25 Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.

2.30 Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent.”

- 1.21. Comparison between the GL and SL for PE accounts disclosed a variance of P121.128 million.

Table 2. General Ledger vs. Subsidiary Ledger

Account Title	Per GL	Per SL	Variance
CAAP-HO			
Accumulated Depreciation – Motor Vehicles	P 76,694,046	P 81,426,177	P 4,732,131
Accumulated Depreciation – Other Property & Equipment	1,911,143	1,335,774	575,369
Furniture and Fixtures	11,392,157	11,270,863	121,294
Accumulated Depreciation – Furniture & Fixtures	9,252,755	9,303,651	50,896
Other Equipment	41,748,868	41,706,336	42,532
Medical Equipment	15,279,972	15,305,420	25,448
Airport Equipment	497,635,752	497,657,002	21,250
Information and Communication Technology Equipment	641,465,416	641,455,416	10,000
Accumulated Depreciation – Medical Equipment	7,895,107	7,887,339	7,768
			5,586,688
Area Center X			
Other Equipment	33,077,138	956,526	32,120,612
Other Structures	31,999,538	11,971,743	20,027,795
Accumulated Depreciation - Other Equipment	20,249,389	547,927	19,701,462
Airport Equipment	52,069,365	36,596,690	15,472,675
Accumulated Depreciation - Other Structures	7,042,135	2,606,539	4,435,596

Account Title	Per GL	Per SL	Variance
Other Land Improvements	75,887,254	72,206,150	3,681,104
Furniture and Fixtures	7,047,436	3,979,714	3,067,722
Motor Vehicles	5,679,357	2,658,527	3,020,830
Information and Communication Technology Equipment	5,440,380	2,961,069	2,479,311
Accumulated Depreciation - Airport Equipment	10,687,035	8,302,046	2,384,989
Accumulated Depreciation - Airport Systems	1,062,867,779	1,064,930,185	2,062,406
Office Equipment	7,567,106	5,573,582	1,993,524
Accumulated Depreciation - Buildings	15,670,334	17,317,138	1,646,804
Accumulated Depreciation - Information and Communication Technology Equipment	3,179,883	2,166,329	1,013,554
Accumulated Depreciation - Motor Vehicles	2,561,878	1,616,153	945,725
Accumulated Depreciation - Office Equipment	2,931,968	2,314,248	617,720
Accumulated Depreciation - Furniture and Fixtures	2,263,493	1,755,632	507,861
Buildings	37,650,100	37,922,838	272,738
Disaster Response and Rescue Equipment	96,873,746	96,826,762	46,984
Communication Equipment	1,202,430	1,234,662	32,232
Accumulated Depreciation - Disaster Response and Rescue Equipment	84,777,362	84,771,033	6,329
Accumulated Depreciation - Medical Equipment	622	2,177	1,555
Accumulated Depreciation - Communication Equipment	558,620	560,144	1,524
			115,541,052
Grand Total			P 121,127,740

1.22. The following were identified to be among the factors which contributed to the variance noted:

1. Adjustments in CAAP-HO that were correctly reflected in the GL of Airport Equipment, Other Equipment, and Medical Equipment with a total amount of P89,230 were not recorded in the SL.
2. Variance of P131,294 between GL and schedule of *ICT Equipment and Furniture and Fixtures* account pertaining to prior year's transaction have no supporting documents.
3. Variance for Accumulated Depreciation was due to unaccounted adjustments as explained by the Accountant. He added that he would check the accounts and prepare the necessary adjusting entries to reflect the correct balance thereof.
4. Variance between the general ledger and lapsing schedule of AC X was directly attributable to the absence of detailed listings of PPE items. Further verification disclosed that the absence of detailed listing of PPE items was due to improper turnover and lack of pertinent PPE documents and reports from the previous Accountant in May 2014 thus, reconciliation could not be taken.

- 1.23. We recommended that Management direct:
1. CAAP-HO Accounting Division to:
 - a. Analyze and investigate further the causes of the noted variance between the GL and SL, exert effort to locate the supporting documents, and prepare the necessary adjusting entries;
 - b. Update and maintain regularly the subsidiary ledgers; and
 - c. Regularly monitor and reconcile the GL and SL of each account.
 2. Area Center X:
 - d. Follow-up with CAAP-HO regarding the status of the creation of an appraisal team to assist Area Center X's reconciliation of PEs, otherwise, make initiatives within the area center in conducting physical count and data-gathering in order to resolve the unreconciled balances and identify the composition of the aggregated balances; and
 - e. Enjoin the Accountant and Property Custodian to update the lapsing schedule and RPCPPE once data is complete and make necessary adjustments to reflect the correct amount of reported PEs and related accumulated depreciation for the fair presentation of financial statements.
- 1.24. Management commented that:
- 1.25. CAAP-HO Accounting Division reflected the aggregate amount of P89,230 in the records accordingly. They also committed to locate the necessary documents for the noted variance on ICT Equipment, and Furniture and Fixtures amounting to P131,294 as support to prior year's transaction. Further, they acknowledged the discrepancies on *Accumulated Depreciation* and commented that they had been drafting the necessary adjusting entries.
- 1.26. An Appraisal Committee for Area Center X would be created to reconcile the Property and Equipment (PE). Moreover, the Property Unit has already made an initial canvas on properties without corresponding values to aid in the reconciliation of the said balances. Furthermore, property cards were now maintained for the PEs. The lapsing schedule and RPCPPE shall be updated once the needed data are complete in order to make necessary adjustments to reflect the correct amount reported in the FS.
- c. *Erroneous measurement of several parcels of land resulting in the overstatement of Land account by P668.333 million***
- 1.27. Item 6.3.e.2.b of COA Circular No. 2017-004 prescribing the *Guidelines on the Preparation of financial statements and other financial reports and implementation of the Philippine Financial Reporting Standards (PFRS) by Government Corporations Classified as Government Business Enterprises and*

Philippine Public Sector Accounting Standards by Non-Government Business Enterprises provides the following:

“b. Where the acquisition cost of an asset acquired through a non-exchange transaction is not known, its cost may be estimated by reference to its Fair Value as at the date of acquisition in accordance to PFRS 13 on Fair Value Measurement. Xxx”

- 1.28. Land as of December 31, 2021 per books of accounts of CAAP-HO amounted to P1.960 billion, comprised of the following:

Table 3. Composition of the Land account of CAAP – HO

Particulars	Area (sq. m.)		Amount
Fort Bonifacio Transmitter	111,706	P	918,106,800
Civil Aviation Training Center	61,114		916,710,000
Tagaytay Radar – Site 1	14,394		66,475,758
Manila Radar	3,143		28,287,000
Rosario NDB	4,722		17,471,400
Tagaytay Radar – Site 2	6,385		9,577,500
Tagaytay Radar – Site 3	2,178		3,267,000
		P	1,959,895,458

- 1.29. The Audit Team obtained a copy of the Partition Agreement between the Manila International Airport Authority (MIAA) and CAAP dated January 11, 2016. Review of the agreement disclosed that MIAA is the owner of a 61,114 sq.m located in Pasay City. Under Chapter 12, Section 85 of Republic Act (RA) No. 9497 known as the *CAAP Act of 2008*, any real property owned by the national government which was being used by the then Air Transportation Office shall be transferred and titled in favor of CAAP. Relative thereto, the partition agreement showed that out of the 61,114 sq. m., only 15,901 sq.m. would be transferred to CAAP.
- 1.30. Analysis of accounts revealed that the Accountant recorded in the books of accounts the appraised value of the whole 61,114 sq.m. referred to as the Civil Aviation Training Center (CATC) amounting to P916.710 million. Inquiry with the Accountant disclosed that he was not able to obtain a copy of the said Partition Agreement.
- 1.31. On the other hand, the Audit Team noted that Tagaytay Radar Sites 1, 2 and 3 were measured based on the assessed value of the City Assessor of Tagaytay instead of the appraised value based on the appraisal conducted by Intech Property Appraisal Inc. dated February 12 and March 4, 2010. The Accountant explained that he recorded the amount based on the latest available documents.
- 1.32. The observations resulted in the net overstatement of Land and Government Equity accounts both by P668.333 million. Details are shown in Table 4.

Table 4. Cost of CAAP lots

Particulars	Per GL	Per Audit	Overstatement (Understatement)
Civil Aviation Training Center	P 916,710,000	P 238,515,000	P 678,195,000
Tagaytay Radar – Site 1	66,475,758	64,770,750	1,705,008
Tagaytay Radar – Site 2	9,577,500	17,878,000	(8,300,500)
Tagaytay Radar – Site 3	3,267,000	6,534,000	(3,267,000)
			P 668,332,508

1.33. **We recommended that Management direct CAAP-HO Accounting Division to obtain the supporting documents and make the necessary adjustments to reflect the correct balance of the Land account in the financial statements.**

1.34. Management commented that CAAP-HO AD will obtain the supporting documents and make the necessary adjustments.

d. Non-recording of various items of Property and Equipment accounts for Area Centers in the books of accounts resulting in the understatement of the accounts.

1.35. Paragraph Nos. 7 and 15 of PAS 16 provides the criteria in the recognition of the cost of an item of Property, Plant, and Equipment.

“7. The cost of an item or property, plant, and equipment shall be recognized as an asset if and only if (a) it is probable that economic benefits associated with the item will flow to the entity, and (b) the cost of the item can be measured reliably.

15. An item of property, plant, and equipment that qualifies for recognition as an asset shall be measured at cost.”

1.36. Analysis of the account disclosed that various properties in ACs, donated or found at the station without information as to cost or appraised value, were not recorded in the books of accounts due to unavailability of supporting documents. Details are as follows:

Table 5. Details of unrecorded properties per Area Centers

Location	Remarks
AC IX	Transferred properties from DOTr (Dipolog Airport Development Project) amounting to P54.074 million
AC VI	18 Motor Vehicles; and Motor Vehicles amounting to P8.234 million
AC VII	16 Motor Vehicles
AC XII	1 Motor Vehicle and 1 Runway and Taxiway (Siargao Airport Extension of Runway Project)
AC I	1 Motor Vehicle

- 1.37. The non-recognition of the properties in the books of accounts affects the completeness of the Property, Plant and Equipment account balance in the financial statements.
- 1.38. **We recommended that Management direct:**
1. **Area Centers I, VI, and VII to:**
 - a. **Require the Inventory/Appraisal Committee of CAAP to establish the value of the motor vehicles in accordance with the procedures provided in Section 6.2.12 of COA Circular No. 2020-006;**
 - b. **Require the Accountant to immediately record the value of the Motor Vehicle in the books of accounts;**
 2. **Area Center I Property and Supply Officer to prepare the corresponding PAR for proper accountability and monitoring;**
 3. **Area Center IX to:**
 - a. **Exert efforts to locate the supporting documents and coordinate with the source agency for records of the transferred properties;**
 - b. **Comply with the provision of CAAP MC 13-2001 in the transfer and acceptance of assets/properties to CAAP;**
 - c. **Require the Accounting Unit to book up the transferred assets for a fair presentation of the accounts in the financial statements; and**
 4. **Area Center XII to exert extra efforts and coordinate with CAAP-HO to secure the necessary documents related to the unrecorded transfer of properties and make the necessary adjusting entries to record these assets in the books of accounts. While waiting for the said documents, include the properties found at station in the physical count and report in the RPCPPE in conformity with COA Circular No. 2020-006 dated January 31, 2020.**
- 1.39. Management commented that AC I expressed their willingness to comply with the audit recommendations; AC VI Appraisal and Disposal Committee had already conducted an orientation on the conduct of appraisal; and AC VII acknowledged the recommendation and would do its best to appraise the 16 motor vehicles with no assigned cost in CY 2022 in order for the Motor Vehicles account under Property and Equipment be reported complete and accurate.
- 1.40. The Management of AC IX commented that they have not found the relevant documents for the P54.074 million DOTr projects. However, they committed to comply with the audit recommendations and would directly request for the copies of documents on the DOTr projects transferred to CAAP Area Center IX. Lastly, Management of AC XII commented to make representation with CAAP-HO regarding the transfer of assets from DOTr and one service vehicle to the area center.

e. Erroneous recording of transactions and misclassifications of accounts resulting in misstatements of various PE and other related accounts

- 1.41. A review of the subsidiary ledger/lapsing schedule of CAAP-HO as of December 31, 2021 revealed that there were various misclassifications from one PE account to another amounting to P199.756 million. Although the misclassifications did not affect the total cost of PE accounts, the incorrect estimated useful life of the assets which depended on the PE classification resulted in the overstatement of depreciation expense by P9.352 million and accumulated depreciation by P24.758 million.
- 1.42. Further, analysis of the PE account balances of CAAP-HO, Area Centers (ACs) V, and XII revealed various misstatements amounting to P4.246 million. Details are shown in Table 6.

Table 6. Summary of misstatements in PE accounts

Location	Overstatement (Understatement)	Remarks
CAAP-HO	P 10,219,800	Various properties that should have been recorded as Computer Software, Semi-expendable Assets, Expenses, and over/understatement of properties
AC XII	(5,547,218)	Non-capitalization of the cost for major repairs and improvements
AC V	(426,916)	Capitalization of assets not exceeding P15,000 amounting to P119,977 and non-capitalization of major repairs; and improvements amounting to P0.547 million.
P 4,245,666		

- 1.43. In addition, AC XII noted that the related depreciation expense relative to the 28 K9 dogs was not recognized, thus, resulted in the overstatement of assets and understatement of expense account.

1.44. We recommended that Management direct:

1. CAAP-HO Accounting Division (AD) to:

- a. Ensure that transactions are properly classified in accordance with the description of accounts per Annex C of COA Circular No. 2020-002 and recorded in the books of accounts, accordingly;**
- b. Review the lapsing schedule and reconcile the balances against the amount recognized in the books of accounts;**
- c. Record the necessary adjustments in the books of accounts to update the balance of the accounts;**

2. Area Center V:

- a. Supply In-charge to exclude from the RPCPPE those inventory items below the capitalization threshold;**
- b. Accounting In-charge to effect adjusting entry reclassifying the cost of air conditioning units amounting to P0.547 million to the account *Office Equipment* in consonance with COA Circular No. 2020-002;**

3. Area Center XII Accountant to:

- a. Compute the depreciation of all the properties of the Area Center including the Work/Zoo animals account to ensure fair presentation of the asset, depreciation and its related accounts in the financial statements; and**
- b. Reclassify the capitalizable major repairs and improvements to their appropriate PE accounts and henceforth, comply with PAS 16 on the recognition, capitalization and classification of PE accounts.**

1.45. Management commented that the misclassifications were due to the treatment of CAAP in the recording of PE based on their usage and not in their nature. The AD would revisit the recording process of PE according to their classification and would apply any revisions/adjustments. Further, CAAP – HO AD commented that they recognized the properties that should have been recorded as Due from Regional/Branch Office and are due for adjustments. They committed to locate the supporting documents to support the journal entry voucher.

1.46. The Management of Area Center (AC) V agreed to the recommendations. Moreover, AC XII committed to work with a veterinary doctor for the determination of the useful life of each K9 dog and adjust the recording of capitalizable assets that were recorded to expense account.

f. Non-derecognition of unserviceable properties resulting in overstatement of PE accounts

1.47. Paragraph 67 of PAS 16 requires that *“The carrying amount of an item of property, plant, and equipment shall be derecognized (a) on disposal or (b) when no future economic benefits are expected from its use or disposal.”*

1.48. Moreover, COA Circular No. 89-296 dated January 27, 1989 prescribes the *Audit Guidelines on the Divestment or Disposal of Property and Other Assets of National Government Agencies and Instrumentalities, Local Government Units and Government-Owned or Controlled Corporations and their Subsidiaries*, with the following modes of disposal/divestment: Public Auction, Sale thru Negotiation, Barter, Transfer to Other Government Agencies and Destruction or Condemnation.

- 1.49. Review of RPCPPE for unserviceable properties and the Inventory and Inspection Report on Unserviceable Properties (IIRUP) for disposed items of CAAP-HO and AC VII revealed that unserviceable assets and/or already disposed of amounting to P1.968 million were still recorded in CAAP's books of accounts as of December 31, 2021, to wit:

Location	Amount (net book value)
CAAP-HO	P 1,710,436
AC VII	257,459
	P 1,967,895

- 1.50. Verification of documents disclosed that CAAP-HO Supply Division provided a copy of the IIRUP to CAAP-HO Accounting Division (AD), however, the Accountant was not able to record the necessary adjusting entries. He added that AD would validate the documents and effect the necessary adjustments.
- 1.51. Non-disposal of unserviceable properties in AC VII have always been observed since CY 2015 but the audit recommendation to dispose them remained unimplemented as of December 31, 2021. The Area Accountant confirmed that Management would set the disposal for the year 2022.
- 1.52. In ACs XI and XII, the Audit Team noted some disposed and unserviceable properties. However, the total amount of the said properties could not be determined due to incomplete property records.
- 1.53. The delay in the disposal of these properties had diminished their value due to prolonged exposure to natural elements and deprived CAAP of the additional income had they been promptly disposed of through sale or negotiation. Moreover, the PE accounts were overstated due to the non-derecognition of the unserviceable properties which remained recorded in the books of accounts.
- 1.54. **We recommended that Management direct:**
1. **CAAP-HO Accounting Division to coordinate with the Supply Division (SD) to gather the supporting documents, prepare the necessary journal entries to derecognize the unserviceable and disposed PE from the books of accounts, and submit the Journal Entry Voucher to the Audit Team, together with complete documents, for review.**
 2. **Area Center XI to:**
 - a. **Require the Property Control/Supply Unit to prepare a checklist of all unserviceable PPE with complete data in the Inventory and Inspection Report of Unserviceable Properties (IIRUP), duly signed as prepared by the Property Control/Supply Unit Head and approved by the Head of CAAP and submit copy of the same to the Audit Team and DAC for inspection;**

- b. **Require the Disposal and Appraisal Committee (DAC) to prepare the Appraisal Review Report on Property for Disposal (ARRPD) showing the appraised values of the assets and submit copy of the same to the Audit Team for review; and**
 - c. **Instruct DAC to convene and agree on the mode of disposal of the items after receiving the ARRPD duly reviewed by the Audit Team and recommend the applicable mode of disposal for CAAP Head's approval and submit these documents to the Audit Team for evaluation and action thereon prior to the disposal of unserviceable items.**
3. **Disposal Committee CAAP-HO, Area Centers VII, XI and XII to undertake the immediate disposal procedures of unserviceable properties to avoid possible loss due to further deterioration and devaluation of the said properties and to decongest the storage area.**

1.55. Management commented that:

- a. CAAP-HO Accounting Division would review the documents of the disposed assets and prepare the necessary adjusting entry. The reason for the delay in the preparation of journal entry voucher was due to some of the disposed assets not recorded in the books of accounts thus, validation of record was needed to fully derecognize these assets.
- b. The Inventory Committee mentioned that guidance on preparation of documents for the disposal of equipment and other properties was provided to CAAP-HO and Area Centers' representative. They added that the documentation for the aircraft had been forwarded to the Office of the Deputy Director General for Operations while the motor vehicle was requested by the Civil Aviation Training Center to use for their training course (AVSEC).
- c. Management of Area Center VII mentioned that disposal of properties including highly-technical equipment would need the approval from the Head Office.
- d. AC XI Property Control/Supply Unit had already prepared the necessary IIRUPs ready for signing by the Head of CAAP. Further, actions for unserviceable properties located in front of the office of Property Control/Supply Unit were in process.

In addition, AC XI DAC would prepare the Appraisal Review Report on Property for Disposal (ARRPD) showing the appraised values deemed most beneficial to the government of the assets and submit a copy of the same to the Audit Team for review.

Management of AC XI received a letter reply from CAAP Enforcement and Legal Service regarding the inquiries on disposal of materials identified by CAAP DAC that should be turned over to the DIAA pursuant to Section 15 of RA No. 11457. Hence, Management would wait for the full

establishment of the DIAA Management and collaborate with the officials regarding the unserviceable properties.

- e. Management of AC XII would instruct the Waste Disposal Committee the conduct of disposal of unserviceable properties of the area center.

g. Unavailability of Certificate(s) of Title to assert CAAP’s ownership on 72 parcels of land

- 1.56. Paragraph 2, Section 39 of PD 1445 provides that “In the case of deeds to property purchased by any government agency, the Commission shall require a certificate of title entered in favour of the government or other evidence satisfactory to it that the title is in the government.”
- 1.57. While Section 22 (f) of RA 9497 states that CAAP is authorized to acquire, own, hold and administer real properties. Furthermore, Section 85 of the same Act states that any real property owned by the national government which is being used by the then Air Transportation Office shall be transferred and titled in favor of CAAP.
- 1.58. Land as of December 31, 2021 per books of accounts amounted to P37.344 billion. However, review of pertinent documents revealed that the 72 parcels of land do not have Certificates of Title, or if any, were not under the name of CAAP.

Table 8. Proof of ownership of lots with deficiencies

Location	No. of Parcel of Land	Area (sq. m.)
AC VIII	5	1,570,636
AC II	64	458,706
CAAP-HO	3	23,638
	72	2,052,980

- 1.59. Certificate of Title is a document evidencing a right of ownership of a property. Absence thereof may cast doubt on the validity of CAAP’s ownership of the lots.

1.60. We recommended that Management direct:

- 1. **CAAP-HO Aerodrome Development and Management Service (ADMS) to:**
 - a. **Coordinate with Manila International Airport Authority (MIAA) as to the required documentation and immediately submit these requirements to fast-track the processing of the transfer of titles;**
 - b. **Provide the Audit Team the certified true copy of the Certificate of Title for review;**
- 2. **Area Center II to facilitate the titling of the 64 lots in the name of CAAP; allocate funds to complete the processing of Certificates of**

Title and other legal documents to support CAAP's claim of ownership of all its land properties; and safeguard government funds and properties by ensuring that transactions are legal, valid and proper; and

- 3. Area Center VIII to inquire and request with CAAP-HO Central Records and Archives Division (CRAD) for copies of the proof of ownership over these lands which were recorded in the books of accounts. Also, if some of these lands have Deed of Sale only, propose to CRAD that the deed be annotated by the Registry of Deeds.**

1.61. Management commented that:

1.62. CAAP-HO ADMS committed to process the title of the land and would coordinate with MIAA regarding requirements needed for processing the transfer. Further, they would submit the pertinent documents to COA once completed. In addition, copies of various communications with the Land Registration Authority as proof of actions made by CAAP to address the issue were submitted to the Audit Team for review.

1.63. AC II had started the titling of the CAAP Basco landholdings and requested a budget for the initial processes. They assured that they would continue the processing of the Certificate of Titles of the mentioned landholdings as soon as budgetary requirements are available, and facilitate the inquiry on the Itbayat Airport. They also requested from the Chief Aerodrome Development & Management Service the initial documents needed by the DENR and POW for budget allocation.

1.64. AC VIII sent a letter to CRAD of CAAP-HO requesting for a certified list of owners' duplicate copies of Certificates of Title or original Deed of Sale which are in their possession. Moreover, Management requested from CRAD for a copy of the appraisal reports of AC VIII properties for they could not ascertain the value recorded in their books of accounts.

- 2. The balance of Construction in Progress (CIP) – Land Improvement, Infrastructure Assets, and Buildings and Other Structures accounts amounting to P1.556 billion as of December 31, 2021 could not be relied upon due to: a) inclusion of completed or terminated projects; b) misclassification of the project costs; c) unaccounted amount recorded in CIP - Other Public Infrastructure of Area Center XI amounting to P9.491 million; and d) inadequate accounting records to validate the ongoing and/or completed projects of Area Center IX.**

2.1. As stated earlier, Paragraph 15 of the Philippine Accounting Standards (PAS) 1 requires the fair presentation of financial statements.

2.2. Moreover, PAS 16 *Property, Plant and Equipment* provides that the items of property, plant and equipment shall be recognized as assets when:

“a. it is probable that the future economic benefits associated with the asset will flow to the entity, and

b. The cost of the asset can be measured reliably.”

- 2.3. Furthermore, Annex C of COA Circular No. 2020-002 re: Updated Revised Chart of Accounts for Government Corporations describes that “Construction in Progress account is debited to recognize the accumulated cost or other appropriate value of land improvements, infrastructure assets, buildings and other structures which are still in the process of construction or acquisition. This account is credited upon reclassification to the appropriate account upon completion, and/or adjustments.”
- 2.4. The CIP account consists of costs of ongoing construction or rehabilitation of projects implemented by CAAP such as perimeter fences, asphalt of the runway, construction and repair of various buildings, and other infrastructure assets. Audit of the accounts disclosed the following:
- a. Inclusion of completed or terminated projects resulting in the overstatement of the CIP by P368.252 million and the misstatement of other affected accounts**
- 2.5. Analysis of the accounts revealed that the balances included the cost of completed projects totalling P359.261 million, composed of P357.285 million for CAAP-HO and P1.976 million for Area Center XI.
- 2.6. The cost of the completed projects should have been reclassified from CIP to their respective PE or other appropriate accounts. Non-reclassification thereof resulted in the overstatement of CIP account by P359.261 million and the understatement of the appropriate PE account, Accumulated Depreciation, Depreciation Expenses, Retained Earnings amounting to P359.261 million, P99.762 million, P30.140 million, and P69.622 million, respectively.
- 2.7. Moreover, review of documents revealed that there were projects already terminated but still recorded in the CIP account of CAAP-HO amounting to P8.991 million.

Table 9. Summary of terminated projects

Project	Amount
Improvement of First and Fourth Floor of Main Bldg. and other CAAP Main Office Selected Areas	P 7,721,057
Construction of Perimeter Fence at Catarman Airport	1,270,380
	P 8,991,437

- 2.8. Proper actions should have been taken on the terminated projects and the cost of such should have been reclassified to their respective PE or other appropriate accounts. This resulted in overstatement of CIP by P8.991 million and the misstatement of the related accounts.

2.9. **We recommended and Management agreed to direct:**

- a. **CAAP-HO Accounting Division to coordinate with Aerodrome Development and Management Service (ADMS) for the submission of all documents related to the completed and terminated projects to support the preparation of reclassification/adjusting entries, prepare the necessary adjusting entries for the reclassification of HO completed projects to the appropriate PE accounts, and effect the transfer to the respective Area Center books of accounts the various completed airport projects, including the provision for depreciation;**
- b. **CAAP-HO ADMS to review the latest status of all projects, ensure to collate all the necessary and complete documents relative to these projects, conduct a final inspection, issue the necessary certifications (Certificate of Project Completion, Certificate of Final Acceptance), and process the payments for final billings with complete supporting documents, if warranted; and**
- c. **Area Center XI Accounting Unit to effect the necessary adjustments in the books of accounts based on the pertinent supporting documents by reclassifying the *CIP – Other Public Infrastructures* account to its appropriate *PE* accounts and determine and record the amount of depreciation and accumulated depreciation that should have been recognized for said PEs from the time they were available for use in the operation.**

2.10. Management commented that:

1. CAAP-HO Accounting Division prepared and recorded the adjusting entries for reclassification of completed projects dated January 2022 except for the Construction of Security Maintenance Service Road and Drainage System at Manila Transmitter since the voucher for the final payment is still in process.
2. CAAP-HO ADMS agreed to review the latest status of all projects, ensured to collate all the necessary and complete documents relative to these projects, committed to conduct a final inspection, issue the necessary certifications, and process the payments for final billings of those projects with complete supporting documents.
3. The Area Accountant of AC XI commented that the projects particularly in General Santos City Airport were yet to be located and verbal instructions were already given to the personnel-in-charge to locate the documents needed in the preparation of adjusting entry.

2.11. The Audit Team received the adjusting entries for CAAP-HO however, only the journal entry voucher amounting to P213.575 million was presented while some were not yet submitted by the AD. Further, these were all dated January 2022 and subject to CY 2022 audit.

b. Misclassification of project costs resulting in the overstatement of Construction in Progress – Buildings and understatement of Construction in Progress – Infrastructure Assets by P13.358 million

- 2.12. A review of the general ledger and various supporting documents disclosed that CAAP-HO Accounting Division erroneously recorded the progress billing for the project related to the Expansion of Apron at Busuanga Airport, Coron, Palawan under *Construction in Progress – Buildings and Other Structures* (CIP – BOS) instead of *Construction in Progress – Infrastructure Assets* (CIP - IA). This resulted in the overstatement of *CIP – BOS* and understatement of *CIP – IA* both by P13.358 million.
- 2.13. **We recommended and Management agreed to direct the Accounting Division to prepare the necessary adjusting entries to correct the erroneous recording of transactions and reflect the correct account balances.**
- 2.14. CAAP-HO Accounting Office prepared and recorded the adjustment to address the misclassification. The journal entry voucher provided to the Audit Team for verification was dated January 2022 thus, subject to CY 2022 audit.
- c. Unaccounted amount recorded in CIP - Other Public Infrastructure of Area Center XI amounting to P9.491 million**
- 2.15. Results of the audit showed that an unaccounted amount of P9.491 million was recorded under the CIP account prior to CY 2015. This amount is still for record verification by the AC Accounting Unit.
- 2.16. **We recommended that Management direct the Area Center XI to:**
- a. **Verify the nature of costs tagged as *Unaccounted Amount* in the CIP account and thereafter apprise the Audit Team of the results thereof;**
 - b. **Effect the necessary adjustments in the books of accounts based on the pertinent supporting documents by reclassifying the CIP – Other Public Infrastructures account to its appropriate PE accounts and determine and record the amount of depreciation and accumulated depreciation that should have been recognized for said PEs from the time they were available for use in the operation; and**
 - c. **Henceforth, regularly monitor completed projects in all airports under Area Center XI and immediately record and reclassify costs of completed projects to its appropriate PE accounts upon completion and thereafter recognize depreciation and accumulated depreciation in accordance with PAS 16.**
- 2.17. The Area Accountant of AC XI commented that the amount was recorded prior to CY 2015. Supporting documents are yet to be located and verbal instructions were already given to the personnel-in-charge to locate the documents needed in the preparation of an adjusting entry.

d. Inadequate accounting records to validate the ongoing and/or completed projects of Area Center IX

- 2.18. Audit of financial statements for CY 2021 revealed a balance of CIP account amounting to P30.865 million. It was observed that the CIP entries and balances per accounting records have not been reconciled with the Project Monitoring Reports (PMR) to determine which CIP accounts/projects have already been completed so that these can be properly reclassified to the appropriate PE account classification.
- 2.19. The following deficiencies were noted in the CIP report submitted by the Accounting Unit in CY 2021: 1) the balance carried over as of CY 2013 amounting to P8.034 million did not have details and breakdown; 2) some projects during CYs 2015-2017 lacked complete details and had negative ending balances; and 3) 18 projects completed in CY 2019 per PMR in the total contract amount of P31.221 million were still recorded under the CIP account instead of the appropriate PE account. Moreover, the accounting unit did not maintain subsidiary ledgers by project name to facilitate reconciliation with the PMR prepared by the Airport Maintenance Section (AMS). Thus, the existence, completeness and valuation of the balances could not be ascertained.
- 2.20. **We recommended that Management direct the Area Center IX:**
- a. **Accounting Unit to locate pertinent records to support prior years' CIP accounts and closely monitor the account thru the maintenance of subsidiary ledgers and other accounting records;**
 - b. **Coordinate with the Airport Maintenance Section to identify completed projects and request submission of property completion and inventory reports for all completed projects for proper reclassification and recording to its appropriate PE account, and provision of depreciation for depreciable assets, if any; and**
 - c. **Accounting Unit to prepare the necessary adjusting entries for the reclassification of the completed projects from CIP-Other Public Infrastructure account to appropriate PE accounts and correct the relevant Depreciation Expense, Accumulated Depreciation and Retained Earnings accounts.**
- 2.21. Management commented that they are currently reconciling the CIP account to identify actual unfinished projects. They also committed to comply with the abovementioned audit recommendations.

3. The completeness and valuation of the Accounts Receivable and Operating Lease Receivable totaling P4.616 billion as of December 31, 2021 could not be ascertained due to: a) variance of P1.268 billion between the General Ledger (GL) and Subsidiary Ledger (SL) balances; b) existence of past due accounts totaling P4.536 billion, including dormant accounts from the then Air Transportation Office (ATO) amounting to P287.308 million; c) variance of P284.907 million between the balance per books of accounts and the amount confirmed by 21 airline companies and unconfirmed receivable balance of P1.013 billion; and d) unsupported prior years' adjustment amounting to P4.056 million.

3.1. The aggregate amount of P4.616 billion pertains to the Accounts Receivable and Operating Lease Receivable balances due from airline companies and CAAP's concessionaires for fees and charges consisting of Air Navigational Charges (ANC), landing and take-off fees, parking fees, rent/lease income, and similar others. ANCs are imposed on airline companies for the use of communication facilities owned by CAAP. The ANC, being the primary source of revenue of CAAP covers a huge portion of the receivable balance.

3.2. Analysis of the accounts disclosed the following:

a. **Variance of P1.268 billion between the balances per GL and SL**

3.3. QC4 and QC29 of the Conceptual Framework of the Philippine Financial Reporting Standards state that:

QC4 – *“If the financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of the financial information is enhanced if it is comparable, verifiable, timely, and understandable.”*

QC29 – *“Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.”*

3.4. Comparison of the GL and SL balances of Accounts Receivable/Operating Lease Receivable of CAAP disclosed a total variance of P1.268 billion, to wit:

Location	per GL	per SL	Variance
CAAP-HO	P 2,181,353,267	P 3,250,952,126	P 1,069,598,859
AC I	34,547,608	41,373,049	6,825,441
AC II	31,571,530	31,341,615	229,915
AC III	76,597,289	74,973,615	1,623,674
AC IV	138,403,925	136,994,031	1,409,894
AC V	39,348,186	39,348,186	0
AC VI	920,097,966	925,404,207	5,306,241
AC VII	221,090,776	233,610,973	12,520,197

Location	per GL	per SL	Variance
AC VIII	159,226,033	181,744,539	22,518,506
AC IX	137,442,049	161,620,904	24,178,855
AC X	151,451,128	212,526,081	61,074,953
AC XI	460,642,577	511,485,249	50,842,672
AC XII	63,971,874	75,752,874	11,781,000
			P 1,267,910,207

- 3.5. Audit revealed that 84 per cent or majority of the variance came from CAAP-HO which pertain to the payments made by various international and/or foreign-based airline companies through telegraphic/bank transfers which were already recorded in the GL but not posted to their respective SLs due to the absence of details of the payor/remitter and the corresponding reference numbers of billing statements paid/settled.
- 3.6. In CY 2021, the CAAP-HO Audit Team recommended to require the clients to submit a copy of remittance advice in every payment made via telegraphic/bank transfer and to compel the payor/remitter to inform the Accounting Division of the particular billings that have been paid/settled. Effective February 2022, revisions on the billing statement template were implemented. The revised template now contains detailed instructions for client's submission of remittance advice, proof of payment and billing reference numbers, for the timely issuance of official receipts and updating of SLs.
- 3.7. Moreover, adjustments relative to the recognition of income offset from the advance payments of air navigational charges for CY 2021 recorded under *Other Unearned Revenue/Income* account were not yet made. This was due to voluminous transactions and difficulties encountered by the Revenue Section in reconciling the affected accounts. While these advance payments were already deducted/offset in the SL balances of the concerned air operators, the same remained unadjusted in the GL, thus, contributing also to the noted variance. Likewise, the non-adjustment of income earned from these advance payments resulted in the overstatement of the balance of Other Unearned Revenue/Income by an undetermined amount.
- 3.8. On the other hand, the ACs claimed that part of the unreconciled balances can be attributed to the absence of supporting documents either brought about by fortuitous events, transfer of office location, or the ATO account balances carried in the books of accounts without any documentation.
- 3.9. In ACs I, VI, and X, the concerned units are still in the process of collating the needed information and gathering available data, where possible. As to ACs III and VIII, the Accounting Units are still in the process of reconciling the differences noted and have agreed to have a periodic reconciliation of accounts to gradually reduce the variance.

3.10. In AC IX, part of the receivable balances from airline companies remained outstanding in the books of accounts due to non-reconciliation and non-recording of payments collected by CAAP-HO.

b. Existence of past due accounts of P4.536 billion or 77 per cent of the receivable balance per SL, including dormant accounts from Air Transportation Office (ATO) amounting to P287.308 million

3.11. Paragraph 66 of Philippine Accounting Standard (PAS) 1 *Presentation of Financial Statements* provides that:

“An entity shall classify an asset as current when:

- a. It expects to realize the asset or intends to sell or consume it, in its normal operating cycle;*
- b. It holds the asset primarily for trading;*
- c. It expects to realize the asset within twelve months after the reporting period; xxx”*

3.12. Review of the Report on Aging of Accounts Receivable/Operating Lease Receivable as of December 31, 2021 disclosed the following:

Table 11. Report on Aging of Accounts Receivables/Operating Lease Receivables (SL) as of December 31, 2021

Location	AGING					
	PAST DUE					
	TOTAL (SL Balance)	Total Current	Over 1 year to 3 years and onwards	ATO	Uncollected PAL accts	Total Past Due
CAAP-HO	P 3,250,952,126	P 976,424,992	P 848,266,915	P 143,375,589	P 1,282,884,630	P 2,274,527,134
AC I	41,373,049	7,742,440	26,679,930	6,950,679	0	33,630,609
AC II	31,341,616	5,616,068	24,669,958	1,055,590	0	25,725,548
AC III	74,973,615	16,125,222	30,787,069	28,061,324	0	58,848,393
AC IV	136,994,031	22,744,207	113,512,394	737,430	0	114,249,824
AC V	39,348,185	7,519,646	26,379,508	5,449,031	0	31,828,539
AC VI	925,404,207	72,456,050	846,472,343	6,475,814	0	852,948,157
AC VII	233,610,973	44,792,770	169,542,088	19,276,115	0	188,818,203
AC VIII	181,744,539	20,625,151	161,119,388	0	0	161,119,388
AC IX	168,537,219	31,874,648	129,746,256	*6,916,315	0	136,662,571
AC X	212,526,081	35,997,587	159,303,336	17,225,158	0	176,528,494
AC XI	511,485,249	92,440,502	367,259,894	51,784,853	0	419,044,747
AC XII	75,752,874	13,627,159	22,154,355	0	39,971,360	62,125,715
TOTAL	P 5,884,043,764	P 1,347,986,442	P 2,925,893,434	P 287,307,898	P 1,322,855,990	P 4,536,057,322
Percentage	100%	23%	50%	5%	22%	77%

* ATO accounts of AC IX amounting to P6.916 million were recorded as Other Non-Current Assets in the Financial Statements. Total SL Balance exclusive of this amount is P5.877 billion.

3.13. Analysis of the above aging schedule disclosed that P4.536 billion, or 77 per cent of the P5.884 billion receivables remained unsettled for over one year to more than 10 years. Out of the P4.536 billion, P287.308 million pertained to uncollected receivables of the defunct ATO and the balances of which were carried over in the books of accounts of CAAP in CY 2008 without any supporting documentation. It also included past due accounts from airline companies and concessionaires which are no longer in operation in Area Centers (ACs) III, V, VI, IX, and XI, thus, the probability of collection could no longer be ascertained.

3.14. In CAAP Head Office (CAAP-HO) and AC XII, audit also revealed that P1.323 billion or 22 per cent of the past due accounts came from the uncollected

balance from Philippine Airlines (PAL) as a result of the compromise agreement between CAAP and PAL in 2017.

- 3.15. The material amount of long-overdue accounts critically exposed CAAP to the risk of sustaining undue losses from the ailing aviation industry affected by the COVID-19 pandemic.
- 3.16. Through Management's recent collection efforts and the P300.00 million subsidy received by 16 airline operators considered as critically-impacted businesses in the aviation sector as provided under RA No. 11494 or the Bayanihan to Recover as One Act, the outstanding Accounts Receivable/ Operating Lease Receivable balances of CAAP-HO and all of its ACs as of December 31, 2021 vis-à-vis the December 31, 2020 balances decreased by P510.547 million.
- 3.17. On March 8, 2022, Management issued Authority Order (AO) No. 052-2022 to reconstitute CAAP's Credit and Collection Task Group (CCTG) to perform tasks relevant to billing and collection and resolve issues and concerns relative thereto.

c. Variance of P284.907 million between the balance per books of accounts and the amounts confirmed by 21 airline companies, and the unconfirmed receivable balance of P1.013 billion in CAAP-HO

- 3.18. Confirmation letters were sent out to 76 selected debtors in CAAP-HO and the results are summarized in Table 12:

Table 12. Summary of Results of Confirmation

Particulars	No. of Debtors	SL Balance as of December 31, 2021	Per Confirmation	Variance/ Unconfirmed Balance
<i>With confirmation</i>	21	P 626,224,481	P 341,317,181	P 284,907,300
<i>Without confirmation</i>	55	1,013,241,879	No reply	1,013,241,879
	76	P1,639,466,360	P 341,317,181	P 1,298,149,179

- 3.19. The variance between the SL balances and the amount confirmed were primarily attributed to the unaccounted remittances made thru telegraphic/bank transfers that remained unposted in the respective SLs. As discussed in Paragraph No. 3.12 of this report, the payments were not timely recorded/posted in the respective SLs until such time that the payor and billing statement/s intended for the said remittances had been identified.
- 3.20. Audit also revealed that some of the confirmed balances pertained only to records of the airlines' present ground handlers. As the ground handlers of international airline companies frequently change, the unreconciled balances from clients' previous ground handlers remained outstanding and accumulated over time, hence generating a substantial amount of variance upon confirmation.

- 3.21. Moreover, results of confirmation also disclosed that there were 2021 billings neither delivered nor received by the airline companies as of January 2022. The Accounting Division (AD) claimed that delivery of billing statements to those clients was being coursed thru the United Coconut Planters Bank (UCPB), as part of CAAP's Collection Facility Agreement with them. The liaison officer of the bank admitted the non-delivery of the succeeding billings due to consecutive lockdowns and restrictions imposed by the airport terminals where offices of the airline companies were located.
- 3.22. Had there been regular coordination between the client, the concerned bank, and the AD, the designated SL keepers could have directly submitted the electronic copies of the billings to the clients instead. Had those billings been delivered on time, receivables from these clients would have been collected and funds therefrom could have been used by CAAP in the performance of its mandate.

d. *Unsupported prior years' adjustment amounting to P4.056 million*

- 3.23. In AC V, an adjustment of P4.056 million was made to the receivable account reducing its balance. The adjustment was neither reflected in the corresponding SLs nor was it supported with documents that would establish its validity. The same was merely presented as a deduction in the Aging Schedule. The adjustment had been existing since CY 2012.
- 3.24. In CY 2020, Accounting Unit of AC V commented that the negative balance of P4.056 million pertained to the absorption of ATO accounts by CAAP wherein the said amount was considered as a collection but the particular accounts involved and corresponding SLs have yet to be ascertained/identified, hence the same was merely presented as deduction in their Aging Report.
- 3.25. The lack of sufficient documentation on the adjustment made casts doubt on its validity.
- 3.26. **We recommended and Management agreed to instruct:**
1. **The Credit and Collection Task Group (CCTG) to:**
 - a. **Intensify collection efforts by issuing monthly Statement of Accounts (SOA) to all airline operators reflecting the current billings and arrearages and issue demand letters to all delinquent clients;**
 - b. **Consider designating a personnel who will be directly in-charge in dealing with the clients to efficiently aid the Revenue Accountant and SL keepers in the management and collection of receivables;**
 - c. **Fast track the formulation of policy/ies for an effective and efficient billing and collection system including an updated policy and procedures for the imposition of penalties and surcharges to all delinquent accounts;**

2. **The Chief Accountant and/or Area Center Accountants to:**
 - d. **Conduct an in-depth examination and periodic reconciliation of the variances between the GL and the SL, and prepare the necessary adjusting entries, if warranted;**
 - e. **Simultaneously record in the GL and SL the collection to reduce the variance of unaccounted remittances with identified airline operators;**
 - f. **Monitor the compliance of clients in the submission of remittance advice, proof of payment, and reference numbers of billings paid/settled for the timely issuance of official receipts and updating of SLs;**
 - g. **Conduct a regular (at least quarterly) reconciliation of the Other Unearned Revenue/Income account. Ascertain income already earned from advance payments of ANCs and take up the necessary adjusting entries in the books of accounts;**
 - h. **Exert diligent effort to locate all the supporting documents to establish the existence and validity of dormant receivables, and exhaust all remedies to collect them, otherwise, request authority to write them off, if warranted, in accordance with COA Circular No. 2016-005;**
 - i. **Directly coordinate with the concerned airline operators aside from their designated ground handlers in the country;**
 - j. **Keep track the delivery of billing statements to the clients including those covered by the UCPB Collection Facility.**
 3. **The Area Center V Accountant to locate/trace the Journal Entry Voucher/s and the supporting documents on the adjustment/deduction made from the Accounts Receivable (AR) amounting to P4.056 million, otherwise, restore the said amount to AR, if the adjustment cannot be documented.**
- 3.27. Management commented that the Accounting Division is already assessing the schedule of Accounts Receivable to determine the long outstanding accounts for the issuance of demand letters and request for write-off.
 - 3.28. Moreover, the Chief Accountant agreed that to further reduce the variance between GL and SL, all the unaccounted remittances will be temporarily lodged in a suspense or clearing account until such time that collections thereof are fully reconciled and posted in the respective SLs of the clients.
 - 3.29. Management likewise agreed on the necessity to deploy additional manpower complement in order to fast track the reconciliation of affected accounts, to resolve the recurring issues and to comply with the audit recommendations. The Accounting Division also committed to directly coordinate with the clients

for the reconciliation of accounts. Meanwhile, in order to facilitate the delivery of billing statements, an employee has been designated to cover the area within the vicinity of Ninoy Aquino International Airport.

- 3.30. Area Center V Accounting Unit commented that an adjusting entry would also be prepared to restore the unsupported adjustment of P4.056 million.

4. The Guaranty/Security Deposits Payable account balance of P179.029 million as of December 31, 2021 could not be relied upon due to: a) variance of P97.441 million between the balances per General Ledger (GL) and Subsidiary Ledgers (SLs); b) misclassification of retention money for various Department of Transportation (DOTr) downloaded projects resulting in the overstatement of Guaranty/Security Deposits Payable and the understatement of Due to NGAs, both by P70.326 million; c) double recording of the accounting entry to reclassify the retention money of a DOTr- downloaded project totaling P4.749 million in CAAP-HO books of accounts; and d) inclusion of long outstanding balances of retention money for various completed projects in CAAP-HO books of accounts.

- 4.1. As discussed earlier, Philippine Accounting Standards (PAS) No. 1 requires the fair presentation of the financial statements.
- 4.2. Likewise, the *Conceptual Framework for Financial Reporting* states that “Financial reports provide information about the reporting entity’s economic resources, claims against the reporting entity and the effects of transactions and other events and conditions that change those resources and claims.”
- 4.3. Retention money pertains to the amount withheld from progress payments to contractors, which is equivalent to 10 per cent of the total amount due prior to any deduction, until 50 per cent of the value of works are completed, as determined by the procuring entity. If, after 50 per cent completion, the work is satisfactorily done and on schedule, no additional retention shall be made; otherwise, the 10 per cent retention shall be imposed. It is intended to cover uncorrected discovered defects and third-party liabilities prior to the issuance of the final acceptance.
- 4.4. Analysis of the Guaranty Deposits Payable account revealed the following:
 - a. ***Variance between the balances per General Ledger (GL) and Subsidiary Ledger (SL)***
- 4.5. Comparison between the balances of the GL and SL of CAAP-HO disclosed a total variance P97.441 million.
- 4.6. Verification disclosed some of the causes of the variance, as follows:
 - a. Released retention money in CY 2021 totaling P3.602 million still recorded in the SLs but not in the GL, while those released in CY 2022 amounting to

P0.947 million were already excluded from the SL as of December 31, 2021; and

- b. Retention money withheld in 2015 and prior years per GL of CAAP-HO were excluded in the SL due to lack of supporting documents.

4.7. We recommended that Management direct CAAP-HO Accounting Division to:

- a. **Exert efforts to locate the documents supporting the balances from prior years since these have been carried over cumulatively up to the present;**
- b. **Maintain a subsidiary ledger with complete details per project and conduct reconciliation between GL and SL balances to facilitate the monitoring of the transactions and movements of the account; and**
- c. **Make the necessary adjustments in the books of accounts to update the account balance.**

- 4.8. Management commented that CAAP-HO Accounting Division would update the SL to reconcile with GL balances as of December 31, 2021. The Office committed to regularly maintain the SL to properly reflect the balances in connection with the transactions and movements of the account. Further, efforts would be exerted to locate the documents to support the balances from prior years.

b. *Misclassification of retention money for various DOTr downloaded projects resulting in the overstatement of Guaranty/Security Deposits Payable and understatement of Due to NGAs, both by P70.326 million*

- 4.9. Annex C of COA Circular No. 2020-002 re: *Updated Revised Chart of Accounts for Government Corporations* describes the following:

“Guaranty/Security Deposits Payable is credited to recognize the incurrence of liability arising from receipt/withholding of cash or cash equivalents to guaranty (a) that the winning bidder shall enter into a contract with the procuring entity; (b) performance by the contractor of the terms of the contract; and (c) that the contractor shall correct all discovered defects and clear/settle all third party liabilities. This account is debited for refund after the fulfillment of the purpose of the bond or forfeiture upon failure to comply with the purpose of the bond/retention, and/or adjustments.

Due to NGAs is credited to recognize receipt of funds for the delivery of goods/services as authorized by law, fund transfers from National Government Agencies for the implementation of specific programs or projects subject to liquidation and other inter-agency transactions. This account is debited for delivery of goods/services, liquidation of funds received, settlement of liabilities, and/or adjustments.”

- 4.10. The *Guaranty/Security Deposits Payable* account balance as of December 31, 2021 amounted to P179.029 million. This account included mainly the retention money withheld from the progress payments for CAAP projects. However, review of transactions posted in the GL revealed that the account balance included retention money for various projects of the DOTr, implemented by CAAP for CYs 2019 to 2021 totaling P70.326 million, which should have been classified as Due to NGAs.
- 4.11. The misclassification of accounts resulted in the overstatement of the *Guaranty/Security Deposits Payable* and understatement of the Due to NGAs both by P70.326 million.
- 4.12. **We recommended that Management direct CAAP-HO Accounting Division (AD) to:**
- a. **Exert effort to locate and refer to the documents attached to the vouchers when payments for progress billings of DOTr-funded projects were made and prepare the necessary adjusting entries to reclassify the retention money for DOTr-funded projects from *Guaranty/Security Deposits Payable* to Due to NGAs;**
 - b. **Coordinate with the Aerodrome Development & Management Service (ADMS) to obtain a list of DOTr-funded projects to be used as reference in the monitoring of payments of progress billings from the date of effectivity of MOA to December 31, 2021; and**
 - c. **Henceforth, ensure that transactions are properly classified and recorded in the books of accounts.**
- 4.13. Management commented that CAAP-HO AD had already made the necessary adjusting entry to correct the classification of retention money from payments to DOTr-funded projects. In addition, CAAP-HO Accounting Division committed that related future transactions would be recorded and classified in the books of accounts correctly.
- 4.14. Verification of the journal entry voucher disclosed that it was dated January 2022, hence would be subject to CY 2022 audit of accounts and transactions.
- c. ***Double recording of the accounting entry to reclassify the retention money of a DOTr - downloaded project totaling P4.749 million in CAAP-HO books of accounts***
- 4.15. Review of documents disclosed that the entry to reclassify the retention money for Runway Asphalt Overlay at Calbayog Airport, a DOTr project, to *Due to NGAs* account, was recorded twice under JEV No. F-21-12-109 and F-21-12-150, both dated December 31, 2021 for the same amount of P4.749 million.
- 4.16. **We recommended that Management direct CAAP-HO Accounting Division to prepare the necessary adjusting entry to reverse the entry made under JEV No. F-21-12-150 dated December 31, 2021.**

4.17. The Management commented that CAAP-HO Accounting Division had already adjusted the books of accounts in January 2022 thus, subject to CY 2022 audit.

d. Inclusion of long outstanding balances of retention money for various completed projects

4.18. Examination of the SLs for Retention Money disclosed that the balance of the account included long outstanding retention money amounting to P12.121 million pertaining to the following projects:

- a. Projects under Air Transportation Office (ATO) and prior to year 2015 transactions amounting to P0.706 million;
- b. Projects with Certificate of Final Acceptance amounting to P20,925;
- c. Projects with Certificate of Project Completion (CPC) amounting to P6.277 million;
- d. Various completed infrastructure projects with no information as to availability of Certificate of Project Completion and/or Certificate of Final Acceptance amounting to P4.159 million; and
- e. Acquired goods with invoices dated more than two years ago amounting to P0.958 million.

4.19. It was noted that the AD did not prepare an aging schedule nor maintain a similar document to determine whether the long outstanding retention money was due for release or for possible reversion to the equity.

4.20. We recommended that Management direct CAAP-HO Accounting Division to:

- a. Maintain a subsidiary ledger per project and aging schedule for the account, with complete details (i.e. name of suppliers or contractors with their respective total balances and the corresponding number of days outstanding);**
- b. Coordinate with Aerodrome Development and Management Service (ADMS)/Supply Division/End-user regarding the status of various CAAP projects to ascertain the validity of the recorded retention money;**
- c. Evaluate the long outstanding balances per SL for: (1) possible reversion to Retained Earnings or (2) possible release of retention money to the respective contractors for projects with final acceptance and without discovered defects and issues after coordination between the End-user or assigned Project Engineer/s and the contractor/s; and**
- d. Effect the necessary adjustments in the books of accounts to update the balance of the account.**

4.21. The Management commented that CAAP-HO Accounting Division (AD) would update the SL for the Guaranty/Security Deposits Payable account to properly present the details relevant to the conduct of audit and monitoring. In addition,

AD would exert effort in locating the supporting documents of long outstanding balances to properly evaluate and perform the necessary steps to correct them.

5. The faithful representation of Inventory accounts totaling P135.623 million was not ascertained due to: a) variance of P77.573 million between accounting records and the Report on Physical Count of Inventories (RPCI); b) erroneous recording of transactions; c) inconsistent/erroneous use of inventory cost formula; d) unrecorded utilization of fuel and lube oil; and e) unrecognized loss on impairment for obsolete accountable forms.

5.1. PAS 1 on Presentation of Financial Statements states that Financial Statements shall present fairly the financial position, financial performance and cash flows of an entity and that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. (underscoring supplied)

5.2. Audit of Inventory accounts disclosed the following deficiencies:

a. Variance between accounting and property records - P77.573 million

5.3. COA Circular No. 2018-003 dated November 21, 2018 prescribes the use of the Internal Control Standards for the Philippine Public Sector (ICSPPS). Section 10.1.6 of Part IV – Internal Control Components of the ICSPPS provides that the financial records should be reconciled with appropriate documents on a regular basis, as part of the agency’s control activities.

5.4. Similarly, Section 10.1.11 of the same guideline states that Management should establish physical controls to secure and safeguard vulnerable assets and that it is important that these assets be periodically counted and compared with control records.

5.5. Comparison between the recorded balances of various supplies inventory accounts maintained by the Accounting Division and the RPCI submitted by CAAP - Head Office (HO) and ACs V, VI, and VII disclosed a variance totaling P77.573 million. Details are as follows:

Table 13. GL vs. RPCI

Location	Total Inventory		Variance
	Per GL	Per Inventory Report	
CAAP-HO	P 50,773,962	P 15,721,393	P 35,052,569
Area Centers			
AC V	36,127,757	1,134,743	34,993,014
AC VI	6,827,655	6,091,190	736,465
AC VII	16,768,034	9,977,460	6,790,574
	P 110,497,408	P 32,924,786	P 77,572,622

- 5.6. The variance of P77.573 million could be primarily attributed to the continuous non-conduct of periodic reconciliation of records between the respective Accounting Division/Unit and the Supply Division/Unit despite the constant reiteration of the audit observation in the prior years' Annual Audit Reports (AAR).
- 5.7. Additionally, the Audit Team observed that deliveries in CAAP-HO of Medical, Dental and Laboratory Supplies were directly recorded to the relative supplies expense account. As of December 31, 2021 and December 31, 2020, the RPCI prepared by Office of the Flight Surgeon and Aviation Medicine (OFSAM) showed unused Medical, Dental and Laboratory Supplies Inventory (MDLSI) at P7.417 million and P27.381 million, respectively. This showed that a huge quantity of MDLSI issued to OFSAM were not actually for immediate use, nor for the requirement of the Office for the subsequent quarter. The Supply Division, per CAAP's official website, is the office responsible for the storage, control, and distribution of supplies, materials and office equipment as well as the maintenance of inventory of supplies and equipment and records of property accountabilities of all CAAP employees. Hence, unless specific circumstances involving specific types of supplies warranted deviation from the norm, the MDLSI should have been stored with the Supply Division to be issued to the OFSAM as the need arises to avoid theft, loss or misappropriation.
- 5.8. Similarly, the existence and completeness of the P26.976 million balance in the Other Supplies and Materials Inventory (OSMI) account of CAAP-HO could not be reliably ascertained. The Supply Division insisted that they did not keep an inventory of OSMI and that prior purchases relative to the account were immediately issued to end-users, hence the zero balance in the RPCI.
- 5.9. The Audit Team also noted that the P97,000 balance in the MDLSI account of CAAP-HO had been non-moving for more than 5 years. Per inquiry, OFSAM stressed that the items were no longer in their custody, however, the Reports of Supplies and Materials Issued (RSMI) related to the inventory could no longer be located. This had already been raised in prior years' audit observation, however, the Accounting Division, Supply Division and the OFSAM have yet to resolve the difference.
- 5.10. In AC V, the submitted RPCIs were only for the Office Supplies Inventory, Drugs and Medicines Inventory, and Other Supplies and Materials Inventory accounts of Legazpi Airport. Verification disclosed that the inventories comprising the year-end account balances did not exist as there was no inventory item presented to the Audit Team.
- 5.11. It was also observed that not all Supplies Ledger Cards (SLCs) were updated by the Accounting Division of CAAP-HO and Accounting Unit of AC V. Verification of Stock Cards (SC) maintained by the Supply Section of AC V showed that only the Office Supplies Inventory account had a complete and updated SC, and that the SC of the remaining Inventory accounts were either not updated or not maintained.

- 5.12. Meanwhile, the inventory items presented in the Supplies and Materials Inventory of AC VI were different from the account items recorded in its books of accounts, causing difficulty in reconciling the accounts.
- 5.13. Further, it was noted that in AC VII, the Accountant had already been recording in the books of accounts the cost of inventories purchased at year-end which were either partially or not yet delivered by the supplier. This practice caused the disparity between the accounting and inventory records.
- 5.14. Had the Accounting Division/Unit and Supply Division/Unit of CAAP-HO, and ACs V, VI, and VII updated and reconciled their records regularly, the variance could have been easily identified and resolved. The lack or absence thereof resulted in the difficulty in ascertaining the existence and completeness of the supplies inventory as reported in CAAP's financial statements.
- 5.15. **We recommended that Management direct the Chief of Administrative and Finance Department and the Area Managers of Area Centers V, VI, and VII to:**
- a. **Facilitate the reconciliation of records between the Accounting Division/Unit, Supply Division/Unit and other concerned offices. Thereafter, direct the Accounting Division/Unit to prepare the necessary adjusting entries to establish the true balance of the Inventory accounts;**
 - b. **Require the Accounting Division/Unit of CAAP-HO and Area Center V to properly and timely maintain Supplies Ledger Cards for all inventory items. Likewise, require the Supply Section of Area Center V to maintain complete and updated Stock Cards;**
 - c. **Direct the Inventory Committee of Area Center V to conduct complete count of the inventories, and prepare and submit a complete RPCI;**
 - d. **Instruct the Supply Division of CAAP-HO to take charge in the storage, control, and distribution of supplies, materials and office equipment as well as the maintenance of inventory of supplies and equipment and records of property accountabilities of all CAAP employees, particularly on the Medical, Dental and Laboratory Supplies Inventory and Fuel, Oil and Lubricants Inventory; and**
 - e. **Ensure that the Accounting Division/Unit and Supply Division/Unit of CAAP-HO and Area Centers regularly conduct reconciliation of records after every physical count of inventories.**
- 5.16. Management commented that the Supply Division in CAAP-HO is in the process of reconciliation with the Accounting Division to address the variance on RPCI. Corrected documents/reports would be submitted upon completion. While for ACs V, VI, and VII Management committed to comply with the audit recommendations.

b. Various accounting errors and misstatements - P22.524 million

- 5.17. Audit of the receipt and issuances of supplies inventories of CAAP-HO, and ACs IV, VI and XII in CY 2021, as recorded in the general ledger (GL) disclosed several erroneous journal entries which resulted in the net understatement by P22.524 million of various inventory accounts. Details are shown in Table 14.

Table 14. Effect of erroneous journal entries on various Inventory accounts

Location	Reason of Error	Per books of accounts	Per audit	Effects
				Over (Under) in Inventory
Office Supplies Inventory (OSI)				
HO	Journal entry for the issuance of office supplies for the month of May 2021 amounting to P406,624 was inadvertently posted in the GL at P1.252 million	P 1,252,265	P 406,624	P (845,641)
HO	Unissued office supplies were recorded	0	39,625	(39,625)
AC IV	as an outright expense	0	544,058	(544,058)
Accountable Forms, Plates and Stickers Inventory (AFPSI)				
HO	Issuance of 200 booklets to Collecting Officer in CAAP-HO was recorded twice (prior year)	60,000	0	(60,000)
HO	Advanced payment to Supplier was recorded as inventory	2,361,792	0	2,361,792
AC VI	Unissued accountable forms were recorded as an outright expense	0	12,283,371	(12,283,371)
Fuel, Oil and Lubricants Inventory (FOLI)				
HO	Erroneous adjusting entries to correct advance payments recorded in the FOLI account instead of the Other Prepayments account	1,242,192	1,567,277	325,085
Medical, Dental and Laboratory Supplies Inventory (MDLSI)				
HO	Unissued MDLSIs were recorded as an outright expense	0	7,417,080	(7,417,080)
Other Supplies and Materials Inventory (OSMI)				
HO	Issuances of other supplies and materials were not recorded as an expense	1,490,896	0	1,490,896
AC IV	Unissued janitorial supplies were recorded as an expense	0	693,280	(693,280)
AC XII	Unissued Aqueous Film Form Foam extinguishing agents were recorded as an expense	0	4,818,362	(4,818,362)
				P (22,523,644)

- 5.18. It has been a practice of ACs IV, VI and XII to record some of its inventories as outright expenses contrary to Annex C of COA Circular No. 2020-002 dated January 28, 2020 which provides that Inventory Accounts are debited to recognize the cost of the purchase/acquisition of supplies and credited for subsequent issuances, transfers, losses, other disposals and/or adjustments.
- 5.19. Meanwhile, as to the error under the FOLI account of CAAP-HO, the Audit Team observed that the Accounting Division based their adjusting entry by simply relying on the balance of CAAP in the statement of account issued by

the supplier. The Accounting Division did not reconcile its records with the concerned offices, particularly, the Flight Inspection and Calibration Group (FICG) for aviation fuel and the Air Navigation Service (ANS) for generators, on whether the fuel was indeed received by CAAP as recommended in the previous AAR.

5.20. The errors in recording the receipt and issuances of various supplies inventories resulted in a net understatement of the consolidated total inventory by P22.524 million. Moreover, the Office Supplies Expense (OSE), Accountable Forms Expense (AFE), Medical, Dental and Laboratory Supplies Expense (MDLSE) and Other Supplies and Materials Expense (OSME) accounts were overstated by P1.429 million, P12.343 million, P7.417 million and P4.021 million, respectively. Further, the Due from Other Government Corporation and Other Prepayments were understated by P2.362 million and P325,085, respectively.

5.21. We recommended and Management agreed to:

- a. Direct the Accounting Division/Unit in CAAP-HO and Area Centers IV, VI and XII to immediately prepare the necessary adjusting entries to correct the erroneous entries recorded in the books of accounts;**
- b. Direct the Accountant -In-Charge of CAAP-HO, Area Centers IV, VI and XII to stop the practice of recording purchases/receipt of supplies and materials as outright expense and instead adopt the practice of debiting appropriate inventory accounts; and**
- c. Require the Flight Inspection and Calibration Group and Air Navigation Service in CAAP-HO to submit, through the Supply Division, delivery receipts/invoices to the Accounting Division to properly support its adjusting entries on the Fuel, Oil and Lubricants Inventory account.**

c. Unrecorded utilization of fuel and lube oil

5.22. Annex C of COA Circular No. 2020-002 defined Fuel, Oil and Lubricants Inventory (FOLI) as an account used to recognize the cost of fuel and oil in government depots and lubricants for use in government vehicles and other equipment in connection with government operations/projects, including the cost or fair value of refined/processed fuel utilized in running power plants.

5.23. CAAP-HO maintains diesel fuel and lube oil as inventory for use of its generators/powerplants in case of power failure. The Air Navigation Service (ANS) is the office responsible for the maintenance and operation of the generators/powerplants and accordingly, the office in-charge of diesel fuel and lube oil used in these generators.

5.24. As of December 31, 2021, the balance of the FOLI account in CAAP-HO was P12.271 million. Per the RPCI prepared by the ANS, the combined inventory of diesel fuel for use of CAAP's generators as of December 31, 2021 was at 46,470.09 liters. While lube oils in stock as of year-end remained at 335 liters.

- 5.25. Audit showed that the most recent deliveries of diesel fuel and lube oil from Petron for use of CAAP's generators were made in September 2021 for 10,000 liters of diesel fuel at P47.24 per liter and 180 liters of lube oil at P132.57 per liter. Based on these amounts, the FOLI account of CAAP-HO had an estimated value of P2.195 million for Fuel and P44,411 for Lube Oil, with a total amount of P2.240 million, which was significantly lower than the year-end balance of the account by P10.032 million.
- 5.26. Our examination disclosed that the glaring discrepancy was due to the non-recording of any fuel utilization/consumption by the generators. The Audit Team would like to emphasize that this had already been a recurring issue. Our inquiry with the ANS, Accounting Division and Supply Division revealed that beginning October 2021, ANS was able to submit its RSMLs to the Supply Division. The Supply Division thereafter forwarded the RSMLs to the Accounting Division. However, the Accounting Division returned the RSMLs to the Supply Division for further action as the RSMLs did not provide sufficient details as to the fuel consumed for the period.
- 5.27. The Accounting Division, together with the ANS and Supply Division, did not fully reconcile their records to finally settle and record prior years' fuel consumption into the books of accounts as recommended in last year's audit recommendation, to ensure that the current year's consumption was duly recorded.
- 5.28. **We recommended and Management agreed to direct the Supply Division to take charge of the control of the Fuel, Oil and Lubricants Inventory and review and evaluate Reports of Supplies and Materials Issued (RSMLs), for CY 2021 and prior years, and submit the same to the Accounting Division for recording in the books of accounts. Moving forward, the Supply Division ensure the timely submission of RSMLs.**
- d. *Inconsistent/erroneous use of inventory cost formula resulting in an understatement of Accountable Forms, Plates and Stickers Inventory (AFPSI) account by P1.966 million and the misstatement of Office Supplies Inventory (OSI) by an undetermined amount***
- 5.29. PAS 2 on Inventories provides that an entity shall use the same cost formula for all inventories having a similar nature and use to the entity.
- 5.30. Meanwhile, No. 4 of the CY 2021 Notes to Financial Statements of CAAP states that the inventories are valued at the lower of cost and net realizable value. Cost is determined using the average cost method. Inventories are recognized as expenses when deployed for utilization or consumption in the ordinary course of operations of CAAP.
- 5.31. The average cost method or the weighted average method calls for the recalculation of the average cost of all items in stock after every purchase. The average cost method assigns a cost to inventory items based on the total cost of goods purchased in a period divided by the total number of items.

- 5.32. Contrary to the aforementioned guidelines, audit disclosed that the Accounting Division in CAAP-HO did not use the average cost method and instead used the First-in-First-out Method when computing for unit cost of AFPSI. The Audit Team recalculated the unit cost of inventory prior to issuances using the average cost method beginning December 2019, when CAAP began using its VAT-registered accountable forms, up to December 2021, and noted an understatement in the account amounting to P1.966 million due to the erroneous use of inventory costing.
- 5.33. On the other hand, the Audit Team observed that, for OSI, while the Accounting Division was using the average cost method, they did not deduct the supplies issued when computing for the average unit cost. Instead, the Accounting Division simply added all purchases and divided them by the total units purchased.
- 5.34. The Audit Team inquired with the Accounting Division personnel in-charge of computing the unit cost of OSI and informed the Audit Team that it was how they computed for the average cost ever since.
- 5.35. Management's inaccurate application of the appropriate costing method resulted in the misstatement of the OSI and OSE by an undetermined amount and the understatement of the AFPSI account and overstatement of the AFE account of CAAP-HO by P1.966 million.
- 5.36. **We recommended and Management agreed to instruct the Accounting Division to:**
- a. **Apply consistently the average cost method when accounting for supplies inventories; and**
 - b. **Prepare the necessary adjusting entries to correct the erroneous recording due to the inconsistent use of cost formula.**
- 5.37. Management further commented that the Accounting Division in CAAP-HO will review its practices and policies regarding the use of inventory cost formula for the recording of AFPSI and OSI accounts.
- e. ***Unrecognized loss on impairment for obsolete accountable forms***
- 5.38. Philippine Accounting Standards (PAS) No. 2 states that the cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling price have declined. In such a case, the practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.
- 5.39. Meanwhile Annex C of COA Circular No. 2020-002 states that Allowance for Impairment-Accountable Forms, Plates and Stickers Inventory is credited for any initial or subsequent write-down of accountable forms, plates and stickers inventory due to fortuitous events, pests, and other similar infestations. The

account is debited upon disposal, derecognition of the inventory for consumption, reversal of impairment loss, and/or adjustments.

- 5.40. The Audit Team noted several accountable forms in the custody of CAAP-HO Supply Division which were rendered obsolete by the registration of CAAP as a VAT-registered entity in September 2018 and the integration of terminal fees with airline tickets in September 2017. These accountable forms with a total cost of P0.889 million comprised of 44,108 sets of Official Receipts (OR), 150,350 sets of Parking Fee Tickets (PFT), and 398,833 sets of Terminal Fee Tickets (TFT). Considering the circumstances, the Accounting Division should have recognized impairment loss to fairly present the AFPSI on the financial statements in accordance with the aforementioned provisions.
- 5.41. Considering that the SLCs were not properly maintained by the Accounting Division of CAAP-HO and the material difference between the accounting and supply records, the Audit Team was precluded in ascertaining the accuracy and completeness of the amount of inventory recorded in the books of accounts which correspond to the obsolete accountable forms. Audit likewise disclosed that several ACs transmitted obsolete accountable forms in their custody to CAAP-HO for appropriate disposition, however, the Accounting Division of both CAAP-HO and Area Center did not record the transfer accordingly. These accountable forms were included in the RPCI which contributed to the variance between the two records.
- 5.42. CAAP-HO Accounting Division personnel in-charge with the account stressed that he was not aware that obsolete accountable forms may be impaired. Nevertheless, he committed to recognize the impairment loss in CY 2022.
- 5.43. **We recommended and Management agreed to direct the Accounting Division and Supply Division to:**
 - a. **Account for all obsolete accountable forms in the custody of both CAAP-HO and Area Centers. The Accounting Division shall ensure proper accounting of these accountable forms to match where the obsolete accountable forms are stored. Likewise, the Accounting Division shall recognize an impairment loss for the obsolete accountable forms, as necessary; and**
 - b. **Ensure that disposal of these obsolete accountable forms are in accordance with applicable laws, rules and regulations.**
- 5.44. Management commented that in CAAP-HO, the Accounting Division is already in coordination with the Supply Division, as well as with Area Centers, to verify the records of Accountable Forms, Plates and Stickers Inventory. Once the inventory of the account is established, impairment loss shall be recognized.

6. The accuracy and completeness of the balance of Rent/Lease Income account amounting to P86.088 million for the year ended December 31, 2021 and the balances of the related Operating Lease Receivable account, Other Business Income account and Other Unearned Income account are doubtful due to non-adjustment of the recognized rental income from concessionaires whose applications were approved to avail the Lease/Rental Payment Holiday from January 1 to December 31, 2021.

6.1. Paragraph 8 of PAS 10 *Events after the Reporting Period* requires that:

“An entity shall adjust the amount recognized in its financial statements to reflect adjusting events after the reporting period.”

6.2. As CAAP’s assistance to the concessionaires in coping up with the effects of the pandemic, various memoranda were issued implementing a Lease/Rental Payment Holiday, waiving rental fees for the period March 15 to December 31, 2020. Under Board Resolution No. 2021-27, the Board of Directors (BOD) approved its extension from January 1, 2021 until December 31, 2021 for all concessionaires under CAAP. However, unlike the previous Lease/Rental Payment Holiday in CY 2020, concessionaires were required to submit certain documents in order to qualify for the assistance program.

6.3. On September 3, 2021, CAAP issued a memorandum re: Implementing Rules and Regulations regarding the extension of the Lease/Rental Payment Holiday from January 1 - December 31, 2021 for All Concessionaires under the Civil Aviation Authority of the Philippines. Under Section V thereof, a profit-sharing scheme was also implemented whereby seven per cent of the concessionaire’s Net Monthly Income shall be declared and collected by CAAP, based on the concessionaire’s Audited Financial Statement for 2021.

6.4. Further, Section VI of the same memorandum provides that:

“All payments/amounts made for the lease/rental fee shall be considered as advance payment for the profit-sharing, any overpayment, once the profit sharing is computed at year end, shall be applied to the concessionaires’ rentals in the succeeding year and/or refunded if the contract will not be renewed.”

6.5. On January 28, 2022, CAAP issued a memorandum showing the list of approved applications of concessionaires who could avail of the Lease/Rental Holiday for CY 2021.

6.6. The Audit Team noted that the balance of Rent/Lease Income account for the period ended December 31, 2021 included the rental income from concessionaires whose applications to avail of the Lease/Rental Holiday were already approved. These transactions occurred and were recorded in the books of accounts in CY 2021, thus, the issuance of the memorandum dated January 28, 2022 showing the list of approved applications was considered an adjusting event. As required under PAS 10, the rental income recognized in the books of accounts should have been adjusted. However, the Accounting Units of CAAP Area Centers were still conducting the tedious reconciliation of

accounts to trace back the record of all the billings issued in CY 2021, hence, the actual amount of income and the related receivables and advance payments were still undetermined and remained unadjusted.

6.7. We recommended and Management agreed to instruct the Accounting Division to:

- a. Determine the total amount of rental income recognized from the billings issued to concessionaires whose applications to avail of the lease/rental payment holiday from January 2021 – to December 2021 were approved; and**
- b. Prepare the necessary adjustments in the books of accounts to reflect the adjusting events after the reporting period.**

6.8. Management commented that several Area Centers already adjusted their books of accounts in relation to the rental holiday, while reconciliation of accounts in other Area Centers was still ongoing. The submitted copies of JEVs for the said adjustments were subject to further evaluation by the Audit Team.

7. The completeness and accuracy of Transportation System Fees for Area Centers VIII, XI & XII in the amount of P61.803 million could not be ascertained due to delay in the recognition in the books of accounts of remittances for Domestic Passenger Service Charge by the air carriers, contrary to PFRS 15 and Section 60 of PD 1445.

7.1. Philippine Financial Reporting Standard (PFRS) 15 *Revenue* provides that:

“When the outcome of a transaction involving the rendering of services can be estimated reliably, and when it is probable that the economic benefits associated with the transaction will flow to the entity, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period. Xxx”

7.2. Section 60 of Presidential Decree No. 1445 (PD 1445) states that:

“Audit of Revenue Accounts. - The examination and audit of revenue accounts shall be performed with a view to ascertaining that earned revenues have been duly recorded; and all recorded revenues have been earned and appropriate classifications of revenues have been consistently followed.”

7.3. Undated CAAP Memorandum Circular No. 022-17, series of 2017 re: Implementing Guidelines for the Integration of Domestic Passenger Service Charge (DPSC) at the Point of Sale of Airline Ticket was adopted by Area Centers in 2017. The airline companies or carriers serve as the collecting agent and were required to remit to CAAP under specific terms and conditions. No more cash collections of terminal fees upon boarding for domestic flights.

- 7.4. The income for transportation system fees was recorded based on the DPSC Remittance Summary given by CAAP-HO transmitted thru email. The report showed the total amount collected from the airlines and the corresponding service charge for a given period. Actual cash remittances by the airlines were made thereat, net of the service charges.
- 7.5. Non-recognition of the income earned in a given period understated the total revenue of the area center, thereby affecting the fair presentation of the accounts in the financial statements.
- 7.6. In AC XI, of the P51.366 million, 70 per cent or P35.956 million was earned in CY 2020 while the remaining P15.410 million was for the current year. Considering the extent of delay in remittances, the recorded income for transportation system fees for the current year was incomplete and unreliable.
- 7.7. It may be emphasized that AC XI had the necessary data on the number of departing passengers for every flight of each airline, thus, service income could be reliably determined and established at the time the passengers actually departed.
- 7.8. In AC VIII, there is an irregularity on notice of remittances received by AC VIII from CAAP HO and the estimated amounts of DPSC receivable from January 2020 to December 2021 totaled to P42.787 million.
- 7.9. In AC XII, per computation of the Audit Team using the Passenger and Cargo Data prepared by the employee of the air carriers and Airline Summary of Outgoing Passengers prepared by the Billing In-Charge of Butuan Airport, the unrecorded DPSC earned for CY 2021 amounted to at least P16.675 million.
- 7.10. **We recommended that Area Center Managements require:**
 - a. **Area Center XI to coordinate with CAAP Head Office to revisit CAAP Memorandum Circular No. 022-17, series of 2017 and enhance or amend the policy guidelines on billing, collection and recording of the DPSC to comply with Philippine Accounting Standards (PAS) 18 and Section 60 of PD 1445;**
 - b. **Area Center XI to coordinate with CAAP Head Office to reconcile the Remittance Summary report prepared by the Finance Department of CAAP Head Office with the Daily Monitoring Reports prepared by the area centers;**
 - c. **Area Center VIII to demand from CAAP-HO the share of Area Center VIII of DPSC and that they be notified of it regularly;**
 - d. **Area Center XII to direct the Area Center Accountant to recognize income from Domestic Passenger Service Charge (DPSC) when earned and record in the books of accounts the period to which the income relates and reconcile the remittance report from Air Carriers and other pertinent documents with the records of Area Center and**

Satellite Airports to ensure the validity and accuracy of the remitted DPSC from air carriers;

- e. **Area Center XII to coordinate with and if possible, secure a written instruction from CAAP-HO on appropriate mechanisms to address the issues on non-submission of Remittance Report from Air Carriers and delayed provision of Remittance Summaries which affects recording in the books of accounts of Area Centers; and**
 - f. **Area Center XII to direct the Air Traffic Service Division Personnel and/or Air Terminal Supervisor to prepare and submit on a daily basis the Flight Statistics/Data Report or any relevant report to ensure the validity and accuracy in computations of billed fees and charges as reported in the Abstract of Bills Rendered/Billing Statement to various Air Carriers.**
- 7.11. The AC VIII Management commented that a letter dated March 14, 2022 was sent to the Chief Administrative and Finance Service, CAAP-HO expressing concern over the absence of notice of the share of AC VIII of DPSC collection from Air Carriers at the Head Office.
- 7.12. During the exit conference, the Area Manager informed that CAAP-HO Internal Audit Service is currently drafting a proposal/recommendation for CAAP Nationwide on the enforcement of timely remittance of DPSC collection and imposition of corresponding sanctions to air carriers pursuant to the provision of MC No. 022-17.
- 7.13. AC XI Management commented that they provided CAAP-HO Finance copy of the AOM for proper disposition. For uniformity of the procedures being followed throughout CAAP accounting offices, Management will wait for the final instructions on how to address the COA findings.
- 7.14. AC XII Management commented that she had informed the Area Accountant and the Billing In-Charge to adhere to the recommendations and perform the following: a) To prepare Statement of Account per Airlines and to reconcile with the Billing In-charge; b) To coordinate with CAAP-HO regarding the ongoing revision of CAAP Memorandum Circular on Domestic Passenger Service Charges with the airlines; and c) To submit the lacking Flight Plans and Tower Logs for the year 2021 and to include this in the future submission of the Abstract of Bills.
- 7.15. Moreover, the Air Traffic Service (ATS) Facility In-charge replied that the Billing In-charge is being provided promptly with all the relevant information for her reference as to the accuracy of the computation of landing charges.

- 8. Income from Communication Facilities derived from Air Navigational Charges (ANCs) was understated by P15.802 million and P18.257 million in CY 2021 and CYs 2019-2020, respectively, due to a) unbilled and unrecorded ANCs; and b) over/under billings and erroneous recording, resulting further in understated Accounts Receivable and Retained Earnings in the aggregate amounts of P34.059 million and P18.257 million, respectively. The said lapses can be attributed to the absence of clear-cut policies on billing and collection system and the manual recording of transactions.**
- 8.1. Air Navigational Charges (ANCs) are imposed on the use of CAAP communication facilities by air operators in conformity with CAAP Circular No. 03-11 series of 2011 dated April 11, 2011, re: CAAP Schedule of Fees and Charges for Air Navigation Service.
- 8.2. Billing and collection process of ANCs for transient/non-scheduled flights is different from scheduled flights. As provided in CAAP Circular No. 03-11, the ANCs for non-scheduled flights shall be payable upon filing of the flight plan and issuance of the Operational Flight Permit (OFP), while for the scheduled/regular flights, the ANCs shall be payable within 10 working days upon receipt of the bill from CAAP.
- 8.3. The air operators hired the services of ground handling companies to facilitate their aircraft operations in the country.
- 8.4. The Flight Operations Division (FOD), under the supervision of the Flight Standards Inspectorate Service (FSIS), is in charge of the processing and issuance of OFP. But after office hours, holidays, and weekends, CAAP's Operation Center (OpCen), as the FOD's counterpart, issues the said permit.
- 8.5. Part of the process on the application of OFP for non-scheduled flights is the issuance of an Order of Payment Slip (OPS) for the advance payment of the ANC. These documents serve as cross-reference of the Billing Section for the flight details of the air operators/ground handlers and being compared to the Flight Statistics Report (FSR), generated from the actual flight data captured in real-time by the system of CAAP under Communication, Navigation and Surveillance – Air Traffic Management (CNS-ATM).
- 8.6. For non-scheduled flights, the actual amount of ANC per billing would be offset against the advance payment made. Reconciliation of outstanding payable balances in the respective subsidiary ledger of air operators would be made by the designated SL keepers of the Revenue Section.
- 8.7. Audit of income from ANCs for CYs 2019-2021 revealed the understatement of Income from Communication Facilities by P15.802 million, Retained Earnings by P18.257 million and Accounts Receivable by P34.059 million due to the following:

a. **Unbilled/unrecognized income from ANCs of international flights totaling P28.196 million**

Table 15. Summary of Unbilled ANCs from CYs 2019 to 2021

Particulars	2019	2020	2021	Total
Unbilled ANCs from international flights	P 2,953,342	P 17,455,245	P 10,115,757	P 30,524,344
Less:				
Unbilled ANCs subsequently billed in succeeding years	(814,818)	(911,096)		(1,725,914)
ANCs from Exempt Flights (Tagged as Military, Diplomatic, Rescue & Humanitarian flights)	(583,015)	(3,239)	(15,768)	(602,022)
Net unbilled ANCs	P 1,555,509	P 16,540,910	P 10,099,989	P 28,196,408

- 8.8. Due to the surge of COVID-19 cases in CY 2020, the Accounting Division's regular process of issuance of OPS was temporarily suspended. Nonetheless, Management allowed the FOD and OpCen to continuously issue the OFPs even without the advance payment of ANCs. While the actual flight data was already transmitted to the Billing Unit, the corresponding billing statements could not be prepared due to the absence of data i.e. names of the respective air operators/ground handlers of these flights that can be traced to the issued OPS and OFPs.
- 8.9. The FOD did not provide the Accounting Division with the list of airline companies/operators and/or handlers who were issued OFPs. Similarly, the Accounting Division did not request the needed data to the FOD/OpCen, hence, the corresponding ANCs were not billed and recorded in the books of accounts.
- 8.10. In CY 2020, the Audit Team recommended the following: 1) to identify the operators or ground handlers in the list of unbilled flights based on the OFPs issued in CY 2019 - 2020; and 2) to also request a monthly summary report from the FOD/OpCen for the succeeding issuances of OFPs. However, due to lack of manpower, the FOD submitted merely the copies of the approved letters for the application of OFPs instead of the recommended summary report.
- 8.11. Likewise, due to consecutive lockdowns and the implementation of the skeletal workforce in CY 2021, it was only in September 2021 when the Accounting Division and Billing Unit were able to trace back the data of concerned operators/ground handlers vis-a-vis the issued OPS. Nevertheless, the unbilled ANCs accumulated even though the regular process for the issuance of OPS had already resumed.
- 8.12. Had there been a policy for an effective and efficient billing and collection system with defined rules and guidelines on the duties and responsibilities of the offices involved, the recurring issues in the unbilled ANCs could have been avoided.

b. Over/under billings and erroneous recording resulting in a net understatement of recorded income by P5.863 million

8.13. A detailed review and recalculation of the ANCs of international flights billed in CYs 2019 to 2021 disclosed that there were errors in the recording of income in the books of accounts, including over/under billings as follows:

Table 16. Summary of errors involving Air Navigational Charges for CYs 2019 to 2021

Audit Year	Location		Over billings	Under billings	Errors per GL	Net Effect (understatement)
2021	CAAP-HO	P	674,008	P (464,336)	P (694,072)	P (484,401)
	AC XI		15,553	(83,354)	(5,149,907)	(5,217,707)
2020	CAAP-HO		743,905	(775,222)	0	(31,317)
2019	CAAP-HO		0	(129,344)	0	(129,344)
			P 1,433,466	P (1,452,256)	P (5,843,979)	P (5,862,769)

8.14. Further verification in CAAP-HO and AC XI also showed multiple errors in the computation/footing of the total amount of ANCs per billing and the encoding of the amount billed in the Abstract of Bills Rendered, resulting in over/under billings, and over/understatement of the amounts recorded in the books of accounts.

8.15. Audit also disclosed that due to the manual process of sorting data, the final set of billing statements prepared and issued for the period was incomplete. Thus, the unbilled ANCs for flights from CYs 2019 to 2021, whose air operators were already identified, accumulated to P1.534 million.

8.16. The Billing Unit in CAAP-HO explained that after forwarding the original data to the Accounting Division, they no longer reviewed/rechecked the new summarized data in the final set of billing statements. However, effective September 2021, they claimed to have started implementing a standard procedure of reviewing and cross-checking the amount billed. Meanwhile, due to voluminous transactions, lack of manpower, and other circumstances brought by the COVID-19 pandemic, the prior years' over and under billings remained unadjusted as of December 31, 2021.

8.17. We recommended and Management agreed to:

- 1. Develop/formulate a clear-cut policy on billing and collection processes to include, among others, the duties and responsibilities of the offices involved, and business continuity plan to ensure uninterrupted core operational activities amidst unforeseen circumstances like the COVID-19 pandemic;**
- 2. Consider the procurement of an automated system that will integrate the billing, collection, and accounting into a streamlined process;**

3. **Direct the Accounting Division and Billing Unit in CAAP-HO:**
 - a. **To immediately act on the recently submitted copies of operational flight permits and prepare and send the billing statements to concerned airline operators for the unbilled flights totaling P28.196 million from CYs 2019 to 2021;**
 - b. **To prepare the revised or additional billing statements for the over and under billings of Air Navigational Charges (ANCs) and prepare the necessary adjusting entry/ies in the books of accounts;**
4. **Direct the Area Center XI Accountant to:**
 - c. **Require the concerned Accounting Units of satellite airports to thoroughly review the Billing Statements and Abstract of Bills prepared by their billing in-charge personnel prior to the approval of the Airport Managers; and**
 - d. **Review regularly the submitted reports, reconcile the differences noted and prepare the necessary adjusting entries in the books of accounts duly supported by the revised billing statements and Abstract of Bills Rendered.**

8.18. The Accounting Division explained that preparation of billings for unbilled flights is still ongoing. Due to lack of manpower, the FOD submitted merely scanned copies of approved letters for Operational Flight Permits (OFPs) issued in CY 2020 - 2021 instead of the requested summary report. The Billing Unit experienced delays due to absence of summary data in an encoded form. In the meantime, the Accounting Division facilitated the preparation of additional billings by encoding the given data provided by the FOD.

8.19. The Area Accountant of AC XI likewise commented that a JEV was already prepared to adjust the noted discrepancies. Commitment to check the billing process to avoid possible re-occurrence of errors and deficiencies was also cited.

9. **CAAP-HO's manual accounting system could not be relied upon due to a) erroneous recording of transactions; b) recurring unreconciled balances between the General Ledger (GL) and Subsidiary Ledgers (SL); and c) unposted Journal Entry Vouchers (JEVs), casting doubt on the fair presentation of affected accounts in the financial statements.**

9.1. Internal control as defined by the International Organization of Supreme Audit Institutions Guidelines for Internal Control Standards for the Public Sector (INTOSAI GOV 9100) is an integral process that is effected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:

- executing orderly, ethical, economical, efficient and effective operations;
 - fulfilling accountability obligations;
 - complying with applicable laws and regulations; and
 - safeguarding resources against loss, misuse and damage.
- 9.2. Internal control is a dynamic integral process that is continuously adapting to the changes an organization is facing. Management and personnel at all levels have to be involved in this process to address risks and to provide reasonable assurance of the achievement of the entity's mission and general objectives.
- 9.3. Audit disclosed that there were unreconciled balances reported in the General Ledger (GLs) and Subsidiary Ledgers (SLs), various accounting errors in recording regular transactions and unposted or skipped Journal Entry Vouchers (JEVs), which rendered several accounts in the financial statements of CAAP-HO unreliable. Details are as follows:
- a. *Erroneous recording of fairly regular transactions resulting in misstatements of numerous accounts totaling P110.310 million.***
- 9.4. The Audit Team observed various accounting errors, which were not promptly detected and corrected, details of which are as follows:
1. Collections for the months of January and September, 2021, under JEV No. F21-01-022 and F21-09-027, respectively, totaling P5.461 million were erroneously recorded under Other Unearned Revenue/Income or Other Business Income, instead of Communication Network Fees account.
 2. Advance payment made to APO Production Inc. under JEV No. 21-10-4436 amounting to P2.362 million, was erroneously recorded under Accountable Forms, Plates and Stickers Inventory account instead of Due from Other Government Corporations account.
 3. Payments for progress billing amounting to P13.358 million under JEV No. F21-04-1517 were posted in a different GL account – Construction in Progress – Buildings and Other Structures, instead of Construction in Progress – Infrastructure Assets, despite the correct information on the JEV.
 4. Payment of 15 per cent advance payment to contractor under JEV No. F21-01-031 amounting to P13.042 million was erroneously debited to Due from Regional/Branch Office account, instead of Advances to Contractor account. Similar to the last item, the JEV correctly identified the appropriate account, but the accountant inadvertently posted the transaction to the incorrect GL account.
 5. Payments for Security Services for March to September, 2021 under JEV Nos. 21-06-2293, 21-06-2149, 21-07-2689, 21-08-3440, 21-11-4825, 21-11-4834 and 21-11-4835, totaling P20.932 million were inadvertently recorded in the Janitorial Services account instead of Security Services

account. The JEV correctly identified the appropriate account title, however, the account code for Janitorial Services was erroneously used instead.

- 9.5. In summary, the erroneous entries resulted in misstatements totaling P110.310 million.
- 9.6. These transactions, i.e., collections, advance payments, payment for expenses and progress billings, were regular transactions, and more often than not, could be recorded in the books of accounts using pro-forma journal entries. However, since CAAP implemented a manual accounting system, avoidable errors such as the aforementioned were committed and remained undetected and uncorrected as of year-end. Additionally, the lack of internal control to immediately detect and prevent relatively simple accounting issues, showed that CAAP did not have the necessary strong accounting system as mentioned in the ICSPPS, which, ultimately, resulted in the misstatement of accounts totaling P110.310 million.

b. Unreconciled balances in GL and SL

- 9.7. Philippine Accounting Standard (PAS) 1 on Presentation of Financial Statements states that Financial Statements shall present fairly the financial position, financial performance and cash flows of an entity and that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.
- 9.8. The balances as of December 31, 2021 between the GL and SL of various accounts did not match, as shown in Table 17. Some of these variances were significant and material enough to render the balances of the accounts unreliable.

Table 17. Variance between GL and SL Balances

CAAP – HEAD OFFICE					
Account	Balance per GL	Balance per SL	Variance	Consolidated balances	%
Accounts Receivable	P2,181,266,730	P3,250,952,126	P1,069,685,396	P4,412,530,990	24.24%
Guaranty Deposits Payable	157,035,283	59,594,207	97,441,076	179,029,244	54.43%
Other Unearned Revenue/Income	225,665,341	183,482,813	42,182,528	226,225,301	18.65%
Due to NGAs	1,423,571,754	1,411,330,479	12,241,275	1,455,311,497	0.84%
Other Receivables	69,183,776	61,857,918	7,325,858	70,642,708	10.37%
Accumulated Depreciation - Motor Vehicles	76,694,046	81,426,177	4,732,131	159,240,268	2.97%
Advances to Officers & Employees	(121,547)	947,450	1,068,997	4,661,744	22.93%
Accumulated Depreciation - Other Property and Equipment.	1,911,143	1,335,774	575,369	10,082,562	5.71%
Furniture and Fixtures	11,392,157	11,270,863	121,294	82,114,815	0.15%
Advances to Special Disbursing Officer	2,363,787	2,286,730	77,057	2,480,541	3.11%
Accumulated Depreciation - Furniture & Fixtures	9,252,755	9,303,651	50,896	32,875,197	0.15%

CAAP – HEAD OFFICE					
Account	Balance per GL	Balance per SL	Variance	Consolidated balances	%
Other Equipment	41,748,868	41,706,336	42,532	210,668,975	0.02%
Medical Equipment	15,279,972	15,305,420	25,448	18,402,959	0.14%
Airport Equipment	497,635,752	497,657,002	21,250	2,013,870,391	0.00%
Information and Communication					
Technical Equipment	641,465,416	641,455,416	10,000	717,565,067	0.00%
Accumulated Depreciation - Medical Equipment	7,895,107	7,887,339	7,768	8,976,490	0.09%
P1,235,608,875					

- 9.9. The Audit Team noted that since CAAP implemented a manual accounting system, the posting of the journal entries from the general and special journals to the corresponding SLs and GLs were done manually, hence more prone to data entry errors as well as errors of omission, commission, deletion, duplication, transposition etc.
- 9.10. Some of these variances had already been embodied in prior years' Annual Audit Reports, however, significant discrepancies remained as of report date. It was further noted that the Accounting Division found the reconciliation of these accounts cumbersome and difficult since they have to manually check all the entries in the GL and SL, coupled with the shortage in manpower and fast turnover of personnel. Similarly, we noted that the Accounting Division did not employ any internal control measures to detect and correct discrepancies noted between its GL and SL.
- 9.11. The Audit Team also observed instances where the accounting entry for a particular transaction were recorded in the GL using a different JEV number from the actual JEV, which might contribute to the difficulty in the reconciliation.
- 9.12. Per interview, the Accountant in-charge of posting the JEVs in the GL reassigned a different JEV number to coincide with the series or sequence the bookkeeping section was using. However, the Accountant did not effect the changes in the actual JEV, leading to the confusion.
- c. Skipped or unposted JEVs**
- 9.13. The JEV is a form used to record all transactions, whether cash receipts, cash disbursements or non-cash transactions. Accounting journal entries should be reflected therein and it should serve as the basis for recording in the books of accounts. JEV numbers are assigned by the Accounting Division for easy identification and sequencing.
- 9.14. It was noted that 13 JEV numbers were either skipped in the sequence by the Accounting Division or were not posted in the GL and subsequently submitted to the Audit Team, to wit: F21-01-026, F21-01-027, F21-01-034, F21-04-15 to F21-04-18, F21-05-010, F21-06-027 to F21-06-030, CA-21-04-020.
- 9.15. Notably, we observed similar issues for JEV Nos. DOTr 21-01-01, DOTr 21-01-02 and DOTr 21-09-013. These three JEVs were initially not posted in the

GL, despite the submission of the same to the Audit Team. The Audit Team alerted the Accounting Division of the non-posting which led to its resolution. However, the same could not be said for the above-mentioned 13 JEVs. The issue casts doubt as to the nature of the JEVs, whether it was cancelled, lost or hidden, and its possible impact to the overall financial statements. Inquiry was made with the Accounting Division, however, the Accountant in-charge could not definitively answer whether these JEVs were inadvertently skipped and did not correspond to any actual journal entry.

- 9.16. Overall, the above-noted deficiencies could have been minimized to a reasonable level, if not totally avoided, had CAAP established and implemented an automated/computerized accounting system. The automated accounting system would be able to easily facilitate the posting of JEVs from the journal to the ledger, which would address the unreconciled balances of the GL and SL. Pro-forma accounting entries for regular transactions could be entered into the system, in a way that incorrect usage of account titles and codes would be avoided and the chronological order of the JEV numbers would be assured. A computerized accounting system across all Area Centers would likewise benefit CAAP as financial information for CAAP-Head Office and Area Centers alike would be more accessible to Management.
- 9.17. It is to be emphasized that CAAP handles huge and voluminous financial transactions, with collections and disbursements in CAAP-HO alone totaling P6.921 billion and P7.086 billion, respectively, for CY 2021.
- 9.18. While the establishment of an automated accounting system does not give absolute assurance that the financial statements would be fairly presented, it could reduce the risk of unreliable and/or inaccurate financial information to the reasonable level. Moreover, the accounting personnel currently assigned in doing essential accounting transactions which could already be automated could be reassigned to other important tasks such as reconciliation, review, validation and monitoring of financial transactions to ensure the correctness and completeness of the financial statements.
- 9.19. **We recommended and Management agreed to:**
 1. **Initiate the procurement or establishment of an automated/computerized accounting system. Meanwhile, review or revise the current internal control procedures to minimize the risk of incorrect or unreliable financial statements; and**
 2. **Direct the Accounting Division to:**
 - a. **Reconcile the variances noted between the GL and SL and prepare the necessary journal entries, as warranted;**
 - b. **Prepare the necessary adjusting entries to correct the misstatements; and**

c. Explain the skipped/unposted JEVs, and determine whether these JEVs are mere lapse in sequencing of the Accounting Division or are indeed unposted JEVs.

9.20. Management commented that the skipped JEVs were mere lapse on the sequencing of the JEV numbers, to which the Accounting Division committed to handle more responsibly. They likewise revealed that the procurement of an Enterprise Resource Planning System that includes an automated Accounting System had been initiated and that the Terms of Reference for the project is now under review.

10. The balance of the Due to BIR account amounting to P121.168 million is unreliable due to unaccounted balances amounting to P60.481 million.

10.1. PAS 1 on Presentation of Financial Statements states that “Financial Statements shall present fairly the financial position, financial performance and cash flows of an entity and that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.”

10.2. Further, Annex C of COA Circular No. 2020-002 dated January 28, 2020 on the Adoption of the Updated Revised Chart of Accounts for Government Corporations, defines the Due to BIR account as an account used to recognize taxes withheld from officers/employees and other entities other than Value Added Tax Payable and Income Tax Payable. This account is debited for remittance of the taxes withheld to the BIR, and/or adjustments.

10.3. Considering that withholding taxes were remitted to the BIR on a monthly basis, the balance at year-end amounting to P121.168 million of CAAP should represent the balance to be remitted to the BIR in January, 2022. However, audit disclosed that the amount of taxes withheld by CAAP for December 2021, which should have been remitted to the BIR in January 2022, amounted to P60.687 million, leaving a discrepancy of P60.481 million comprising of P51.656 million in CAAP-HO, P6.325 million in AC III, and P2.500 million in AC XI.

10.4. The Audit Team requested Management to provide information/detailed breakdown of the P60.481 million balance, but to no avail since the Accounting Division did not maintain any tool or list to keep track of all taxes withheld which are yet to be remitted to the BIR, hence, the faithful representation was not ascertained.

10.5. The unaccounted balance of P60.481 million may be taxes withheld in previous years which are yet to be remitted by CAAP to the BIR. However, in the absence of any documents or reconciliation to determine the nature and details of these balances, the Audit Team could not ascertain whether the balance of the account was faithfully represented in the financial statements as required under PAS 1.

- 10.6. We recommended that Management direct the Accounting Division in CAAP-HO and Area Centers III and XI to reconcile its records to determine the nature and necessary details of the P60.481 million balance in the Due to BIR account, and thereafter, remit to the BIR the withholding taxes or prepare the necessary Journal Entry Vouchers to adjust the books of accounts, accordingly.
- 10.7. For CAAP-HO, the Accounting Division committed to reconcile and identify the discrepancy. Meanwhile, for AC III, Management stressed that the P6.325 million discrepancy represented the carried-over balance from the now defunct ATO.
11. The balance of Due to NGAs account amounting to P1.455 billion as of December 31, 2021 could not be relied upon due to variance of P52.682 million between the General Ledger (GL) and Subsidiary Ledger (SL) balances in CAAP Head Office (HO) books of accounts, and the inclusion of long outstanding fund transfers and unsubstantiated transactions amounting to P60.973 million in CAAP-HO and Area Center (AC) X.
- 11.1. Paragraph 15 of PAS 1 Presentation of Financial Statements requires the fair presentation of the financial position, financial performance and cash flows of an entity.
- 11.2. In addition, the Conceptual Framework for Financial Reporting provides for the qualitative characteristics of useful information, such as Verifiability, which helps assure the users that the information faithfully represents the economic phenomena it purports to represent.
- 11.3. Comparison between the General Ledger (GL) and Subsidiary Ledgers (SLs) of Due to NGAs account of CAAP-HO disclosed a variance of P52.682 million as of December 31, 2021.

Table 18. Variance between GL and SL balances in CAAP-HO books of accounts

Balance as of December 31, 2021	Amount
Per GL	P 1,423,571,180
Per SL	1,370,889,667
Variance	P 52,681,513

- 11.4. Inquiry with CAAP-HO Accountant disclosed that the Accounting Division (AD) was not able to prepare the subsidiary ledgers due to the absence of documents to support these long outstanding transactions.
- 11.5. Furthermore, verification disclosed that the Due to NGAs account included long outstanding fund transfers and unsubstantiated transactions amounting to P60.973 million, P58.214 million of which is recorded in CAAP-HO books of accounts and P2.759 million in AC X.

Table 19. List of Unsubstantiated Transactions

Location	Particulars	Amount	Remarks
	Prior years' ATO account balances transferred to CAAP	P 50,472,589	Without supporting documents
	Funds received from DOTr for asphalt paving of runway at Kalibo Airport	5,000,000	Documents for retrieval by the Accounting Division
CAAP-HO	Funds from DOTr for the salaries of employees assigned at Cotabato Airport under ARMM	2,741,011	
			Not supported of any proof of binding contract / memorandum agreement with DOTr
AC X	Funds received from DOTr for land titling in Laguindingan, Misamis Oriental	2,759,690	
		P 60,973,290	

- 11.6. Inquiry with the AC X Accountant disclosed that the liability was recognized in the books of accounts in CY 2013 upon the receipt of funds from the Department of Transportation (DOTr) and was subsequently deposited in LBP under Account No. 0152-0271-50, DOTr PMO. Accordingly, the fund was intended for land titling in Laguindingan, Misamis Oriental. As to the types of expenses that can be charged to the account, the Accountant could not provide details since they did not have a copy of the needed documents. The said account had been non-moving since CY 2013 except for a minimal local travel expense charged by a DOTr representative in May 2021 amounting to P2,857.
- 11.7. Due to the noted variance between the GL and the SL balances in CAAP-HO books of accounts, as well as the existence of the long outstanding and unsubstantiated transactions, the accuracy of the Due to NGAs account balance could not be determined.
- 11.8. **In view of the foregoing, we recommended that Management:**
1. **Direct the CAAP-HO Accounting Division to:**
 - a. **Reconcile the recorded transactions in the GL and the SLs;**
 - b. **Prepare and update regularly the subsidiary ledgers;**
 - c. **Coordinate with the concerned Area Centers for the preparation and submission of Certification required by DOTr and prepare/collate all documents/ reports to support the liquidation of the funds transferred by DOTr to CAAP;**
 - d. **Prepare the necessary adjusting entries to reflect the correct balance of the accounts; and**
 2. **Instruct the Area Center X Accountant to:**
 - e. **Coordinate with CAAP-HO and request any proof of binding contract/memorandum agreement between CAAP and the DOTr**

for the appropriate utilization of the fund based on stated purpose, otherwise, cause the immediate return of fund's balance to the DOTr.

- 11.9. Management commented that CAAP-HO Accounting Division (AD) exerted its best effort in reconciling the difference between the SLs and GL, as well as gathering the necessary documents to support the balance. Meanwhile, the certification requested by the DOTr shall be subject for their discussion to resolve the confusion as to the signatories. Further, the AD commented that they would communicate with the DOTr for the proper reporting of the liquidation and the necessary entries shall be prepared accordingly.
- 11.10. Moreover, AC X Management commented that a request letter was sent to DOTr on the provision of proof of binding contract/ memorandum of agreement between CAAP and the DOTr for the utilization and purpose of the LBP Account.
- 12. The balance of Other Receivables account amounting to P70.643 million as of December 31, 2021, is unreliable due to: a) unadjusted receivable balances (2016-2019) relative to the Daily Subsistence Allowances (DSA) of flight inspectors amounting to P31.982 million; b) long-outstanding and dormant receivables in the total amount of P29.876 million from personnel who are no longer connected with CAAP-HO; and c) unsubstantiated balances amounting to P7.326 million.**
- 12.1. Paragraph 15 of Philippine Accounting Standard (PAS) 1 on Presentation of Financial Statements states that *“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the framework”*.
- 12.2. The Other Receivables account balance of P70.643 million as of December 31, 2021 is composed of the following:

Table 20. Breakdown of Other Receivables account as of December 31, 2021

Particulars	Amount
Unadjusted receivable balances (2016-2019) relative to the Daily Subsistence Allowances (DSA) of flight inspectors	P 31,981,678
Unliquidated Cash advances of retired, resigned, and separated employees	29,702,463
Unliquidated Cash advances of flight inspectors for Daily Subsistence Allowances (DSA) paid by stakeholders	173,777
Area Center Balance	1,458,932
Unsubstantiated balance	7,325,858
Balance, December 31, 2021	P 70,642,708

- 12.3. Audit disclosed that the account balance of P70.643 million is unreliable due to the following observations:
- a. ***Unadjusted receivable balances (2016-2019) relative to the Daily Subsistence Allowances (DSA) of flight inspectors amounting to P31.982 million***
- 12.4. Airline operators pay to CAAP-HO the pertinent certification and administrative fees including the travel-related expenses and Daily Subsistence Allowances (DSA) of flight inspectors upon request for flight inspection/certification. The long outstanding uncollected balances mainly pertain to canceled travels that have remained unadjusted in the books of accounts due to lack of supporting documents.
- 12.5. We noted that all advance payments received from clients for various services were directly recognized as income even though such services have not been rendered yet. The AD admitted that fulfillment of CAAP-HO obligations (i.e. flight inspection and issuance of related certificates) was no longer monitored by their office, thus, they could no longer determine whether the services requested had been rendered or not. Hence, income was recognized every time a payment is received. Such practice did not conform to the prevailing accounting standards on revenue recognition.
- 12.6. Had there been proper and regular coordination between the AD, and the originating offices who were directly dealing with the airline operators and responsible for monitoring the performance of flight inspection, the timely and proper recognition of income in the books of accounts can be made.
- b. ***Long-outstanding and dormant receivables from personnel who are no longer connected with CAAP-HO in the total amount of P29.876 million***
- 12.7. Verification of records revealed a substantial amount of outstanding receivable balances from cash advances of retired, resigned, and separated officers and employees that remained unliquidated as of December 31, 2021. The details of which are shown below:

Table 21. Summary of Unliquidated Cash Advances as of December 31, 2021

Particulars	Amount
Confidential Funds	P 21,200,000
Local and Foreign Travels	5,989,650
Former Special Disbursing Officers	2,192,103
Former Petty Cash Custodians	320,710
Daily Subsistence Allowances (DSA) of flight inspectors	173,777
	P 29,876,240

- 12.8. The unliquidated cash advances for Confidential Funds amounting to P21.200 million were granted to the three former Director Generals of CAAP in CY 2009-2013. In July 2021, Management wrote a letter to the COA Chairman's Office requesting the issuance of Credit Notices to support the recording of liquidation in the books of accounts.

- 12.9. Management also claimed that chances of recovery or collection of accounts from unliquidated cash advances of retired, resigned and separated employees are remote due to the unavailability of supporting documents and dormancy of accounts mostly ranging from 10 to 26 years.

c. *Unsubstantiated balances amounting to P7.326 million*

- 12.10. Review of the entries posted in the general ledger and other records showed that the amount of P7.326 million came from various transactions which transpired mostly from CY 2011 and onwards. Inquiry with the AD disclosed that subsidiary ledgers relative thereto were not maintained. The details and nature of the transactions have yet to be identified as they were still working on the reconciliation of uncollected billings discussed in Paragraph No. 12.4 of this report.

- 12.11. **We recommended and Management agreed to instruct the following:**

1. Accounting Division:

- a. **Fast track the reconciliation for unpaid and/or cancelled billings totaling P31.982 million and prepare the necessary adjustments in the books of accounts;**
- b. **Record the payment for Daily Subsistence Allowances and other fees and charges upon receipt from airline operators as Other Unearned Revenue/Income and debit the same account when CAAP flight inspectors render the services required from them;**
- c. **Send a letter to Intelligence and Confidential Fund Audit Unit (ICFAU) to inquire about the status of the liquidation reports submitted to them for the cash advances of the three former Director Generals amounting to P21.200 million and request for the issuance of the corresponding Credit Notices to support the recording of the liquidation in the books of accounts;**
- d. **Intensify collection efforts by strict implementation of guidelines and procedures prescribed under CAAP Authority Order Nos. 111-10 and 266-17 dated May 7, 2010, and November 9, 2017, respectively, for the settlement of outstanding obligations and accountabilities of all erring accountable officers, including those under Contract of Service;**
- e. **Send demand letters for the settlement of unliquidated cash advances of retired, resigned, and separated accountable officers, including the unsettled accountabilities of flight inspectors;**
- f. **Evaluate the dormant accounts and request authority to write them off, if warranted, in accordance with COA Circular No. 2016-005; and**

- g. Identify the details and nature of transactions of the P7.326 million unaccounted balances in the books of accounts, maintain the corresponding subsidiary ledgers, and determine whether these receivables are still collectible;**

2. Credit and Collection Task Group (CCTG):

- h. Coordinate with Flight Standards Inspectorate Service to establish well-defined policies and procedures for the monitoring of transactions starting from the issuance of pro-forma billing to various airline operators, to the collection of their payments for DSA, fulfillment of the performance obligations of CAAP-HO, (i.e. flight inspection and issuances of related certifications), up to the reimbursement of expenses or liquidation of corresponding flight inspectors' cash advances, for the proper recording of pertinent transactions in the books of accounts and to ensure that controls are in place and compliant with existing regulations.**

12.12. The Accounting Division had already sent a letter to the respective originating offices for the confirmation of canceled requests for inspection and committed to review their existing processes in relation to DSA transactions. The Chief Accountant also agreed to use the Other Unearned Revenue account to temporarily lodge the DSA collections until the performance obligation of CAAP-HO flight inspectors has been completed.

12.13. Management also gave assurance that a letter to ICFAU would be prepared to inquire the status of the liquidation reports for the cash advances on Confidential Funds and to request the corresponding Credit Notices thereof.

12.14. Moreover, the Accounting Division committed to 1) evaluate the schedule of unliquidated cash advances of retired, resigned and separated employees 2) send corresponding demand letters, and 3) prepare the requests for write-off, as necessary.

13. Due from NGAs and Due from LGUs accounts amounting to P51.074 million and P4.930 million, respectively, were not presented fairly in the financial statements due to the non-recognition of loss allowance for Expected Credit Loss (ECL).

13.1. PAS 1 on Presentation of Financial Statements requires the fair presentation of the financial statements.

13.2. Meanwhile, Philippine Financial Reporting Standard (PFRS) 9 provides that an entity shall recognize loss allowance for expected credit losses on a financial asset.

13.3. Additionally, COA Circular No. 2016-005 dated December 19, 2016 provides the *Guidelines and Procedures on the Write-off of Dormant Receivable accounts, Unliquidated Cash Advances, and Fund Transfers of National Government Agencies (NGAs), Local Government Units (LGUs) and Government-Owned and Controlled Corporations (GOCCs)*. Section 7.1 to 7.3

of the Circular states that the Accountant shall conduct regular and periodic verification, analysis, and validation of the existence of the receivables, unliquidated cash advances, and fund transfers, reconcile these balances, and prepare the necessary adjusting entries for any reconciling items noted and to recognize impairment in accordance with the PFRS. The Accountant may also request the write-off of these balances to COA, subject to provision of necessary supporting documents.

- 13.4. Moreover, Section 5.8 of the Circular defines Impairment as a loss in the future economic benefits due to uncertainty of collectability of the receivables or the amount in respect of which recovery has ceased to be probable.
- 13.5. As of December 31, 2021, the balances of the Due from NGAs and Due from LGUs accounts amounted to P51.074 million and P4.930 million, respectively. Examination of the subsidiary ledgers of both accounts revealed that P22.971 million of the Due from NGAs account and the entire balance of the Due from LGUs account were already dormant.
- 13.6. The dormant balances in the Due from NGAs account were balances assumed by CAAP in 2008 from the then Air Transportation Office (ATO). All the relevant supporting documents to determine the NGA/s which received the fund transfer/s and/or for what reason the fund transfer/s was/were made could no longer be located.
- 13.7. The balance under the Due from LGUs account pertain to the funds transferred to the Provincial Government of Misamis Oriental. Management had already sent a letter to the provincial government requesting for reconciliation of accounts, however, they have yet to receive a response.
- 13.8. The dormancy of the above receivable accounts for more than 10 years is an indication that these were already impaired. Moreover, recovery of these accounts was deemed remote due to the absence of documents to support the existence and validity of each account. When the accounts became uncollectible, CAAP had sustained losses. However, we noted that impairment/loss allowance on these accounts was not recognized as required under PFRS 9. Thus, the amounts recorded in the books of accounts were inaccurate and contrary to the established basic principle that “assets should not be carried at above their recoverable amount.” The Due from NGAs and Due from LGUs accounts were not fairly presented in the financial statements.
- 13.9. Likewise, no request for write-off was made in accordance with COA Circular No. 2016-005.
- 13.10. The non-reconciliation and non-liquidation of the account balances cast doubt on whether the purpose of each fund transfers was accomplished and deprived CAAP of funds it can use for its operations.

- 13.11. **We recommended and Management agreed to:**
- a. **Coordinate with the identified implementing agencies, if any, for the reconciliation and liquidation of long-outstanding fund transfers. Send demand letters, if necessary;**
 - b. **Exhaust all means in locating pertinent records relevant to Air Transportation Office (ATO) account balances to pursue the recovery of the unliquidated fund transfers;**
 - c. **Review and evaluate the dormant balances and recognize impairment loss/allowance for impairment – Due from NGAs and LGUs to ensure that the receivable accounts are fairly presented in the financial statements; and**
 - d. **Submit to COA a request for authority to write-off of the dormant accounts in accordance with the procedures and requirements prescribed under COA Circular No. 2016-005, if warranted.**
- 13.12. Management commented that the Accounting Division had already coordinated with the provincial government of Misamis Oriental on March 24, 2022, and that the provincial government confirmed that the funds had already been fully utilized and committed to submit the supporting documents to CAAP.
- 13.13. Meanwhile, JEV No. F-21-12-177 dated December 31, 2021 was also prepared by the Accounting Division to recognize impairment for both accounts.
- 13.14. The Audit Team however noted that the recorded impairment loss on the balance of fund transfers to the PS-DBM in the Due from NGAs account should have not been recognized considering there had been no evidence to support any increase in credit risk, nor the uncertainty on the collectability of these balances, to merit the recognition of an allowance for expected credit losses. In fact, PS-DBM had continuously recognized the remaining balance of CAAP's fund transfers in the latter's Statement of Account, albeit a different amount, due to the lack of reconciliation between records.
- 13.15. It was also observed that the aforementioned JEV lacked the necessary details to support the recognition of impairment losses. While the JEV states that 100 per cent impairment loss was recognized for the ATO balances, there was a variance amounting to P1.203 million between the impairment loss recognized and the balances assumed by CAAP from ATO. Further, the JEV did not offer any explanation as to the basis for the amount of impairment losses recognized.
- 13.16. Considering the foregoing, the Audit Team requested the submission of the following:
1. Explanation/justification for the recognition of impairment loss on the balance of the PS-DBM under the Due from NGAs account, otherwise, reverse the provision of impairment loss amounting to P1.113 million; and

2. Explanation/justification as to the amount of impairment loss recognized in JEV No. F-21-12-177 as well as the detailed computation on how the Accounting Division arrived at that balance.

14. The balance of Deposit on Letters of Credit account amounting to P18.332 million is unreliable due to the absence of documents to support the deposits.

- 14.1. The Conceptual Framework for Financial Reporting provides that one of the enhancing qualitative characteristics of useful financial information is verifiability. Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.
- 14.2. Examination of the Deposit on Letters of Credit account revealed that the account balance of P18.332 million as of December 31, 2021 had been dormant since 2008. Inquiry disclosed that there were no documents nor subsidiary records on hand to support its valuation, existence, completeness, and Management's rights and obligation.
- 14.3. The Chief Accountant disclosed that they had already tried inquiring with the depository banks of CAAP whether the latter have existing deposits on letters of credit, however, the banks could not confirm due to lack of information.
- 14.4. **We recommended and Management agreed to exert best efforts in locating pertinent records relevant to the Deposit on Letters of Credit account and prepare adjusting entries, if warranted.**

15. The completeness of the Cash In Bank account balance as of December 31, 2021 in the amount of P3.099 billion could not be ascertained due to: a) variance amounting to P10.471 million between the balance per books of accounts of CAAP Head Office (CAAP-HO) and Area Centers IV and VI, and the confirmed bank balances; b) variance of P10.173 million between the General Ledger (GL) and Subsidiary Ledger (SL) balances of CAAP-HO, Area Centers III and IV; and c) negative balances in seven bank accounts of CAAP-HO and Area Center IX totaling P11.292 million.

- 15.1. Paragraph 15 of the Philippine Accounting Standards (PAS) 1 provides that:

“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.”

- a. **Variance amounting to P10.471 million between the balance per books of accounts of CAAP-HO and Area Centers IV and VI and confirmed bank balances**

- 15.2. Results of confirmation of bank balances as of December 31, 2021 revealed a variance of P10.471 million. Details are shown in Table 22.

Table 22. Results of Bank Confirmation

Location	Per Books of accounts	Per Bank	Variance
Area Center IV	P 66,144,366	P 75,828,335	P 9,683,969
Area Center VI	144,083,418	143,596,167	487,251
CAAP-HO	3,103,220,325	3,103,520,122	299,797
			P 10,471,017

- 15.3. In AC IV, no Bank Reconciliation Statement (BRS) for 2021 was prepared nor submitted to the Audit Team, thus, the variance remained unaccounted.
- 15.4. Verification in AC VI revealed that the causes of variance were fund transfers to satellite offices that were debited in the SLs despite not receiving the fund, erroneous posting of entries that were not corrected, debit/credit memoranda that were not recorded in the SL and cancelled staled checks that were not reverted back to CIB account.
- 15.5. Review of the BRS of CAAP-HO, revealed various errors/reconciling items that were left unadjusted/uncorrected in the books of accounts.

Table 23. Breakdown of Reconciling Items for CAAP-HO

Book Reconciling Items	Amount
Unrecorded deposits in AC's bank account (previous years)	P (951,022)
Unidentified and unrecorded bank debit memo (2020-2021)	476,459
Payment to the Bureau of Customs	103,715
Unidentified reconciling item in AC -XI's bank account	71,051
	P (299,797)

- 15.6. The variance of P10.471 million remained unreconciled and unadjusted as of report date.

- b. **Variance of P10.173 million between the GL and SL**

- 15.7. Comparison between the GL and SL balances of the *Cash in Bank* of CAAP-HO, ACs III, IV and VI as of December 31, 2021 disclosed a variance of P10.173 million. Details are presented below.

Table 24. Comparison between GL and SL

Location	GL	SL	Variance
AC IV	P 76,265,290	P 66,144,366	P 10,120,924
AC III	18,668,323	18,720,878	52,555
			P 10,173,479

15.8. According to the AC Accountant, there was no SL for the CIB account when she assumed office in January 2015. They only started preparing it when she assumed office, hence, the breakdown of the beginning balances for each of the bank accounts were not identified. Verification of the reconciliation statements prepared by the AC Accountant between the SL and per bank disclosed significant reconciling items from CYs 2010 to 2020 which remained unadjusted in the books of accounts. Currently, the reconciliation is ongoing and AC Management has already made partial adjustments. On the other hand, the details of the noted variance in AC III could not be established due to lack of available BRS.

c. Negative balances in seven bank accounts of CAAP-HO and Area Center IX totaling P11.292 million and other unverified other transactions

15.9. Section 2.1.2 of COA Circular No. 92-125A re: Updated Procedures and Use of New Formats in the Reconciliation of Treasury Accounts provides that the Chief Accountants prepare correcting/adjusting entries for discrepancies/errors or other reconciling items requiring corrections by the agency immediately after the Treasury/Bank Reconciliation Statement were made and after those items were properly analyzed and verified.

15.10. It was observed that CAAP-HO submitted the CY 2021 monthly BRS only on February 5, 2022, March 14, 2022 and April 11, 2022. While the BRSs for various accounts of AC VI and IX were submitted late and the BRSs for AC III and IV were not submitted at all. This precluded the Audit Team’s timely verification of the transactions in the Cash in Bank account.

15.11. Review of BRSs disclosed seven bank accounts with negative balances totaling P11.292 million. Details are presented in the table below.

Table 25. Bank Accounts with Negative Balances

Location	No. of Accounts		Per SL
AC IX	4	P	10,340,497
HO	3		951,023
	7	P	11,291,520

As shown in table 25, the P0.951 million pertained to previous years’ unrecorded deposits in ACs VI, VII and VIII bank accounts.

15.12. **We recommended that Management direct the Accounting Division:**

1. For CAAP-HO to:

a. Request the assistance of the depository banks and coordinate with clients to identify the depositors of the unrecorded P0.951 million deposits. Prepare the necessary adjusting entry/ies to ensure the recognition of these collections in the books of accounts;

- b. **Ensure to prepare a subsidiary ledger specifically for unidentified depositors so the necessary adjustments will be facilitated as soon as their identities are known;**
 - c. **Coordinate and request assistance from Air Navigation Service (ANS) to identify the transactions pertaining to the unidentified and unrecorded debit memoranda of P476,460, obtain complete documentation and prepare the necessary adjusting entries;**
 - d. **Record immediately in the SL the payment to the Bureau of Customs in connection with the import/shipment of replaced/repaired radar parts amounting to P103,715; and**
 - e. **Request the Area Center Accountants (ACs VI, VII, VIII, and XI) to exert effort to locate the documents pertaining to the unidentified deposits/reconciling items, review and establish the entry/ies recorded in the books of accounts to facilitate the preparation of adjusting entries at CAAP-HO.**
2. **For CAAP-HO, Area Centers III, IV, VI and IX to analyze the cause/s of the variance between the GL and SL balances and prepare the necessary adjusting entries duly supported with documents to correct the balances;**
 3. **For CAAP-HO and Area Center III to designate a personnel in-charge of the preparation of monthly Bank Reconciliation Statements and coordinate with the depository/servicing banks to furnish them with the bank statements at the earliest possible time including debit/credit memos, paid checks, etc. that would give information on the nature of the transactions and would support their eventual recording in the books of accounts during preparation of monthly Bank Reconciliation Statements; and**
 4. **For CAAP-HO, Area Centers III, IV and IX to prepare and timely submit monthly bank reconciliation statements so that reconciling items are immediately detected, recorded or adjusted in the books of accounts to ensure the validity and accuracy of account balances in the financial statements.**
- 15.13. The Management in AC III commented that they have instructed the AC Accountant to prepare the necessary adjusting entries for the 19 canceled checks. The AC Accountant has already determined the variance between the GL and SL balances and will also prepare adjusting entries to reconcile the two ledgers. And for the non-submission of monthly BRS, the AC Accountant explained that it was due to lack of manpower in the Accounting Department. He further claimed that the conduct of pre-audit procedures was given more priority, over and above, the preparation of BRS. At present, AC III is now in the process of screening applicants to fill up the vacant accounting position. To resolve the issue, the Area Manager has assured the Audit Team that they will look for a suitable candidate to assist the AC Accountant on his duties, especially the preparation of the monthly BRS.

- 15.14. The Management in AC IV commented on the variance noted between GL/books of accounts and bank confirmed balances that they will adhere with the recommendation and that the AC Accountant will reconcile and prepare the necessary adjustments to reconcile and reflect the correct balance of GL as to the bank balances of cash in bank of Area Center IV. The Accountant had started reviewing adjustments for deposits in transit and outstanding checks that need to be adjusted and will immediately take the balances of previous years that need to be adjusted to reflect the correct amount of cash in bank.
- 15.15. The Management in AC VI commented that the reconciliation of BRS vis-à-vis SL is currently ongoing. The Cash balance as per SL corresponds with bank reconciliation statement balance for Area Account LBP CA#0032-1459-81.
- 15.16. The Management in AC IX commented that an ongoing reconciliation of the CIB is being undertaken. Balances for the closed accounts will be adjusted as soon as the concerned satellite airports provide the bank certification as of December 31, 2021.
- 15.17. The Management in CAAP-HO commented that they have already coordinated the unidentified deposits in the amount of P0.951 million with ACs VI, VII and VIII, and the unidentified reconciling item of P71,051 with AC XI and adjusting entries shall be prepared accordingly.
- 15.18. With regard to the P476,459 unrecorded bank debit memoranda, they have already coordinated with the ANS for the proper documentation and the subsequent preparation of the adjusting entries while the transaction with the Bureau of Customs pertaining to the importation of replaced/repared radar parts in the amount of P103,715 has already been recorded. The P4.547 million discrepancy in the GL and SL has already been identified and reflected in the books of accounts of CAAP-HO. The difference in the amount of P1 is still for reconciliation which might be due to rounding off.
- 15.19. Lastly, to properly address the issue on the delayed submission of monthly BRS due to delay on the part of the depository bank in submitting bank statements, the Finance Department would coordinate the matter with the depository banks.
- 15.20. To date, Management has not submitted any Journal Entry Voucher for the adjustments made in the books of accounts.

- 16. Expenses incurred in CY 2021 for the use of aircraft of Asian Aerospace Corporation (AAC) for the Flight Operation Mission of the CAAP-Flight Inspection and Calibration Group (FICG) totaling P34.745 million was erroneously recorded under the Rent/Lease Expenses account instead of Other Maintenance and Operating Expenses (OMOE) account, thereby overstating and understating the respective accounts by the same amount.**
- 16.1. Philippine Financial Reporting Standards (PFRS) 16 on Leases provides that a contract is a lease contract if it conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. Control is conveyed when the customer has both the right to direct the identified asset's use and obtain substantially all the economic benefits from that use. However, on instances where the supplier has a substantive right of substitution throughout the period of use, the customer does not have the right to use the asset.
- 16.2. In order to carry out flight inspections of air navigation systems and determine the adequacy of aviation and aeronautical systems, CAAP entered into a contract with AAC to use its aircraft for a specific number of block time hours.
- 16.3. This transaction was treated by CAAP as a lease and the Accounting Division recorded the expenses for CY 2021, totaling P34.745 million, under the Rent/Lease Expenses account. Audit revealed that the contract between CAAP and AAC did not involve a lease, but a contract of service.
- 16.4. Inquiry with the FICG disclosed that contract with AAC was treated as a lease since in the conduct of the mission, the pilot from the AAC was only in-charge to ferry the FICG crew from one point to another, but the aircraft would be operated by the FICG for the actual inspection of the subject equipment. The inspection schedule for the year and the specifications of aircrafts suitable for use in flight inspections of Radio Navigational Aids and Visual Aids facilities were provided by the FICG. AAC, in turn, identified the aircrafts that meet the specifications and would be considered as the primary aircraft to be used for the scheduled inspections. However, on days when flight inspections were not conducted, the same aircrafts used by CAAP were being utilized by other government agencies. Moreover, on instances when the primary aircraft was not available, AAC provided a back-up aircraft with the same capabilities as the primary aircraft. Payments for the use of AAC's aircraft were based on the type of aircraft actually used and the number of block time hours utilized.
- 16.5. In view of the foregoing, the contract between CAAP and AAC was not a lease contract. While the FICG operated the aircraft, the aircraft itself was not specifically identified and was not for the exclusive use of CAAP. In fact, AAC had the right to substitute the primary aircraft to be used by CAAP for a back-up aircraft. The erroneous recording of expenses overstated the Rent/Lease Expenses account and understated the OMOE account by P34.745 million.

- 16.6. We recommended and Management agreed to instruct the Accounting Division to:**
- a. Make the necessary adjusting entries to correct the prior year and current year balances of the Rent/Lease Expenses and MOE accounts. For prior year adjustments, restate the beginning balances of the affected accounts; and**
 - b. Assess the substance of the rent/lease contracts entered into by CAAP, both in the Head Office and Area Centers alike, and determine whether or not these contracts involve a lease in accordance with the standards set under PFRS 16 to properly record the transactions in the books of accounts.**
- 17. The existence and completeness of the Due from NGAs account amounting to P51.074 million could not be ascertained due to the variance totaling P11.673 million between the records of CAAP-HO and Procurement Service of the Department of Budget and Management (PS-DBM).**
- 17.1. PAS 1 on Presentation of Financial Statements states that Financial Statements requires the fair presentation of the financial statements.
 - 17.2. Moreover, COA Circular No. 2016-005 dated December 19, 2016 prescribes the *Guidelines and Procedures on the Write-off of Dormant Receivable Accounts, Unliquidated Cash Advances and Fund Transfers of NGAs, Local Government Units, and Government-Owned and Controlled Corporations*. It provides that to ensure the collection of receivables and liquidation of cash advances and fund transfers, these accounts should be regularly monitored and verified as to its existence. Section 7.2 of the COA Circular requires that unliquidated fund transfers shall be reconciled with the balances recorded in the books of accounts of implementing agencies to adjust and reflect the correct amounts and proceed with the required liquidation.
 - 17.3. Purchases made by CAAP through the PS-DBM required advance payment equivalent to the total amount indicated in the Agency Procurement Request (APR) or through PS-DBM's Virtual Store. However, there were instances wherein some items in the APR were not delivered due to the unavailability of the goods being procured, thus resulting in overpayment. In this case, CAAP had the option to utilize the remaining fund to pay for subsequent purchases, or request for a refund. Therefore, it is imperative that the Accounting Division regularly reconcile its balances with the PS-DBM to ensure the correctness of the balance of the account in the books of accounts.
 - 17.4. Comparison of the balances between the Subsidiary Ledger (SL) of CAAP amounting to P23.882 million and the Statement of Account (SoA) from PS-DBM amounting to P12.209 million disclosed a variance of P11.673 million as of December 31, 2021. Similar Audit Observation Memoranda were already issued since 2019. Over the years, the Accounting Division had continuously committed to conduct the reconciliation of accounts with the PS-DBM, however no substantial actions were done to address the issue except for adjusting

entries to correct errors noted in prior year's audit observations. The initial discrepancy noted as of December 2018 amounted to P17.737 million. This amount was only reduced pursuant to prior years' audit recommendations brought about by the reconciliation conducted by the Audit Team. Details of the aforementioned variance of P11.673 million are shown in Table 26.

Table 26. Discrepancy between Accounting Records and SoA from PS-DBM

Particulars	Amount
Discrepancy as of December 31, 2018 as observed in AOM No. 2019-009 (2018) dated February 26, 2019	P 17,737,035
Adjustments made by the Accounting Division as recommended by the Audit Team	(6,658,893)
Refund made by PS-DBM erroneously recorded in Office Supplies Expenses account as observed in AOM No. 2020-006 (2019) dated January 27, 2020	469,680
Unrecorded delivery of 3 laptops in CY 2020 (DR No. M20-004148 dated June 9, 2020)	124,179
Erroneous recording of deliveries in CY 2020 (JEV 2020-01-038 - DR No. M20-000083 recorded at P39,058 instead of P38,105)	953
Discrepancy as of December 31, 2021	P 11,672,954

- 17.5. We observed that the Accounting Division did not keep track of deliveries corresponding to each purchase with the PS-DBM. The accumulation of the huge variance as well as the unrecorded deliveries could have been prevented if a regular and periodic monitoring and reconciliation of advances to the PS-DBM was done. Reconciliation is a crucial process, as it explains discrepancies and identifies the necessary entries to correct the account balances and ensure its fair presentation in the financial statements.
- 17.6. The continuous occurrence of the aforementioned issues showed the lack of a clear and established process within the Accounting Division in conducting a regular and periodic verification, analysis, validation and reconciliation of advance payments required under COA Circular No. 2016-005, a process which, when performed, can easily identify and address the above issues.
- 17.7. The Accounting Division sent a letter dated October 4, 2021 to the PS-DBM requesting a meeting with the latter's Accountant to initiate the reconciliation, however, they have not received a reply as of this date. Per inquiry, no further action was made to facilitate the reconciliation of the account. The Accounting Division also commented that they planned on reconciling its records with that of the Supply Division to determine any unaccounted delivery, however, reconciliation has yet to take place due to lack of manpower. The Audit Team found the excuse on the lack of manpower unacceptable considering that the issues have been ongoing since 2019 with no clear action taken to resolve the discrepancy.
- 17.8. We would like to emphasize that, while the coordination with the PS-DBM would surely facilitate the reconciliation, the Accounting Division need not solely rely on the PS-DBM to reconcile their balances. At the very least, the Chief Accountant could have requested a copy of the Statement of Account from the PS-DBM since 2008, the year CAAP was created, and reconcile the

same with their records. Similarly, the Chief Accountant could have coordinated with the Supply Division to reconcile the purchases and deliveries since 2008. It is emphasized that some of the reconciling items previously observed by the Audit Team were brought about by the reconciliation of the accounting and supply records of CAAP against the SoA issued by the PS-DBM from CY 2014 to present.

- 17.9. The variance of P11.673 million between the records of the Accounting Division and PS-DBM rendered the existence, completeness and accuracy of the Due from NGAs account unreliable. The outstanding fund balance with the PS-DBM should be monitored and subsequently utilized or refunded. The non-utilization of the amount deprives CAAP of funds it can use for its operations, especially during these times of crisis.
- 17.10. **We recommended and Management agreed to direct the Accounting Division to:**
 - a. **Request from the PS-DBM the cumulative SOA beginning CY 2008, reconcile the same with their records and coordinate with the former any variance noted;**
 - b. **Coordinate with the Supply Division to reconcile their records pertaining to deliveries made by PS-DBM since CY 2008;**
 - c. **Prepare the necessary adjusting entries for the reconciling items noted, and request for the refund of the unexpended balance, or use the same for subsequent purchases from the PS-DBM; and**
 - d. **Henceforth, monitor regularly the advances paid to PS-DBM as required under COA Circular No. 2016-005 and ensure that the unexpended balances will be refunded or be used for subsequent purchases.**
- 17.11. Management sent an undated letter to the PS-DBM requesting for the refund of the excess current fund balance amounting to P11.221 million.
18. **The existence and completeness of the Deferred Charges/Losses totaling P13.653 million as of December 31, 2021 could not be ascertained due to the absence of valid and sufficient supporting documents to substantiate the balance.**
 - 18.1. The Conceptual Framework for Financial Reporting provides that one of the enhancing qualitative characteristics of useful financial information is verifiability. Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

- 18.2. The Audit Team observed that the Deferred Charges/Losses account amounting to P13.653 million had been non-moving for more than 5 years as of report date. It was noted that the balance primarily pertains to the prepayment made to Federal Aviation Administration (FAA) of the Department of Transportation of the United States of America in 2016 amounting to P10.150 million in consonance with the Memorandum of Agreement (MOA) entered into by CAAP and the FAA, where the latter would provide the former temporary duty assignment of Safety Specialists and Subject Matter Experts with backgrounds in airworthiness, operations, and/or other expertise, as appropriate, who were competent in applying recommended practices set forth in Annexes 1, 6 and 8 to the Convention on International Civil Aviation. The MOA further states that the specialists shall travel to Manila, Philippines on multiple occasions from the 3rd quarter of 2016 to the 3rd quarter of 2017, and shall provide, among others, a final Technical Assistance Report for the CAAP Director General following the completion of the technical assistance and a comprehensive review of the specialists' report.
- 18.3. As mentioned in the MOA, the endeavor should have been completed by the end of 2017. However, the account remained non-moving since then. The accountant stressed that they were just waiting for pertinent documents from the Flight Standards Inspectorate Service (FSIS), the end-user, so that adjustments could be made in the books of accounts. Inquiry with an FSIS personnel was also made, however, no document and/or any information was obtained relative to the current status and/or the percentage of accomplishment of the said project. Similar inquiry was likewise made with the Office of the Director General, however they could not provide any substantial information relative to prepayment. Additionally, no coordination and/or reconciliation was made with the FAA itself to substantiate the account balance.
- 18.4. Meanwhile, the account balance of P52,797 refers to the payment to the International Civil Aviation Organization (ICAO) for the five-year Trust Fund Project (PH/95/01) to provide assistance to CAAP in implementing an extensive training program in the field of flight safety. Similarly, the accountant did not have any update on the status of the prepayment.
- 18.5. The lack of supporting documents and any information pertinent to the current status of the account precluded the Audit Team in ascertaining the existence and reliability of the Deferred Charges/Losses account balance and casts doubt on whether the account was fairly presented in the financial statements as required under PAS 1.
- 18.6. We recommended and Management agreed to:**
- a. Direct the Flight Standards Inspectorate Service and other relevant offices to coordinate with the Accounting Division for the submission of pertinent documents to determine the current status of the projects, and thereafter, the Accounting Division to prepare the adjusting entries, as necessary; and**

- b. Instruct the Finance Department to make written representation to Federal Aviation Administration and International Civil Aviation Organization, signed by the Director General, for the refund of any remaining balance, if warranted.**

19. The accuracy and completeness of CAAP revenue share from Aeronautical Radio of Thailand Ltd. (AEROTHAI) could not be verified due to the absence of pertinent documents resulting in the non-adoption of the accrual basis of accounting in the recognition of income, thereby understating the Communication Network Fees account by P8.984 million and Retained Earnings by P3.665 million.

19.1. The Conceptual Framework for Financial Reporting provides that for financial information to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely, and understandable.

19.2. Paragraph 27 of PAS 1 provides that:

“An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.”

19.3. In 2001, the Air Transportation Office (ATO), and AEROTHAI entered into an Agreement for the installation, maintenance, and operation of air/ground Very High Frequency (VHF) data link ground stations in the Philippines. The stations are used to deliver air traffic services which include Controller–Pilot Data Link Communications (CPDLC) and Future Air Navigation System (FANS1/A) messages as Airline Operational Control (AOC) data link messages to airline customers.

19.4. At present, there are seven existing Multi-Service Ground Stations (MSGs)/Remote Ground Stations (RGS) in the country, five of which were already transferred by AEROTHAI to CAAP on October 22, 2007. The Agreement for the Operation and Maintenance of VHF Air-Ground Data Link Stations in the Philippines was renewed on July 14, 2009.

19.5. AEROTHAI generated its revenue by sending data messages between the cockpit of a commercial aircraft and the airline offices. AEROTHAI billed the airline companies with the corresponding fees for using the Integrated Aircraft Communications Addressing and Reporting System (ACARS) of Aeronautical Radio, Incorporated (ARINC), which was already acquired by Collins Aerospace.

19.6. Section 5 of the Agreement dated July 14, 2009 states that CAAP’s monthly revenue share would be 33.3 per cent of the total revenues generated per month less all costs pertaining to trainings, meetings, and conferences attended by Air Navigation Service (ANS) specialists and the costs/funding/payment of upgrade of Equipment including but not limited to duties, taxes, freight and insurance, if any.

19.7. On January 1, 2015, Addendum No. 1 to the agreement dated July 14, 2009, was made stating that:

“A. Section 5 (AEROTHAI Responsibilities)

Both parties agree that the revenue share term of payment will be quarterly, commencing on March 31, June 30, September 30, and December 31. The first quarterly payment on March 31, 2015, will be for the revenue share from December 2014 to February 2015. The amount of revenue share after deduction of all costs outlined in the Agreement will be transferred within ten (10) working days to CAAP’s bank account xxx”

19.8. Moreover, it states that “The above terms and conditions of payment shall be complied after AEROTHAI received the payment from airline customers.” This particular provision hindered the timely recognition of income in the books of accounts of CAAP. Also, the collection of CAAP’s revenue share would be dependent on AEROTHAI’s collection performance.

19.9. Review of the various agreements between CAAP and AEROTHAI disclosed that there was no provision as to what documents the latter should submit to the former as a basis for the computation of CAAP revenue share. The accuracy and completeness of the revenue share received by CAAP could not be verified due to AEROTHAI’s non-submission of monthly financial and statistical reports to support the figures shown in the remittance report.

19.10. Analysis of accounts and verification of related documents disclosed that AEROTHAI made the following remittances from March 2015 to April 2022.

Table 27. Summary of AEROTHAI remittances from March 2015 to April 2022

Covered Period / Cut-off date	Due date per contract 1 month after the cut-off date	CAAP Quarterly Revenue Share		Date credited in CAAP bank acct. A	Official Receipt (OR) No.	Date of OR B	Delay in Issuance of OR/ delay in recording of income in the books (B-A)
		Net of Bank Charges					
May 2007 - Nov. 2014	payable in 3 installments per amended contract	\$ 277,429	P 12,398,319	03/02/2015	409166	05/11/2015	70
		277,429	12,398,319	3/16/2015	409170	05/11/2015	56
		277,429	12,348,937	05/10/2015	409228	5/19/2015	9
Dec. 2014 - Feb. 2015	3/31/2015	72,971	3,248,107	05/10/2015			
Mar. 2015 - May 2015	6/30/2015	79,874	3,681,309	07/09/2015	690875	10/20/2015	103
June 2015 - Aug. 2015	9/30/2015	78,916	3,628,785	10/09/2015	690869	10/14/2015	5
Sept. 2015 - Nov. 2015	12/31/2015	70,320	3,352,797	01/06/2016	954799	1/15/2016	9
Dec. 2015 - Feb. 2016	3/31/2016	75,955	3,553,705	04/12/2016	1022078	4/28/2016	16
Mar. 2016 - May 2016	6/30/2016	84,217	3,974,468	07/07/2016	1074852	7/25/2016	18

Covered Period / Cut-off date	Due date per contract	CAAP Quarterly Revenue Share		Date credited in CAAP bank acct. A	Official Receipt (OR) No.	Date of OR B	Delay in Issuance of OR/ delay in recording of income in the books (B-A)
	1 month after the cut-off date	Net of Bank Charges					
June 2016 - Aug. 2016	9/30/2016	95,927	4,770,662	10/06/2016	1125872	01/05/2017	91
Sept. 2016 - Nov. 2016	12/31/2016	93,937	4,682,385	01/09/2017	1159204	1/26/2017	17
Dec. 2016 - Feb. 2017	3/31/2017	97,996	4,916,049	04/03/2017	1254879	04/10/2017	7
Mar. 2017 - May 2017	6/30/2017	107,207	5,415,023	07/06/2017	1394773	11/27/2017	144
June 2017 - Aug. 2017	9/30/2017	114,257	5,771,131	10/06/2017	1394774	11/27/2017	52
Sept. 2017 - Nov. 2017	12/31/2017	117,748	5,930,963	01/10/2018	1394855	1/15/2018	5
Dec. 2017 - Feb. 2018	3/31/2018	139,346	7,239,012	04/10/2018	1458708	4/13/2018	3
Mar. 2018 - May 2018	6/30/2018	129,863	6,948,969	07/10/2018	1545770	7/20/2018	10
June 2018 - Aug. 2018	9/30/2018	137,880	7,416,588	10/09/2018	1572986	10/22/2018	13
Sept. 2018 - Nov. 2018	12/31/2018	143,210	7,496,338	01/11/2019	1611585	1/30/2019	19
Dec. 2018 - Feb. 2019	3/31/2019	163,948	8,303,127	04/05/2019	5412	2/18/2020	319
Mar. 2019 - May 2019	6/30/2019	186,957	9,468,452	07/11/2019	5411	2/18/2020	222
June 2019 - Aug. 2019	9/30/2019	170,552	8,637,606	10/08/2019	5410	2/18/2020	133
Sept. 2019 - Nov. 2019	12/31/2019	140,106	7,095,673	1/14/2020	5409	2/18/2020	35
Dec. 2019 - Feb. 2020	3/31/2020	134,673	6,654,203	4/16/2020	25833	07/09/2020	84
Mar. 2020 - May 2020	6/30/2020	52,453	2,583,303	7/14/2020	25869	7/27/2020	13
June 2020 - Aug. 2020	9/30/2020	44,336	2,155,818	10/08/2020	41009	10/16/2020	8
Sept. 2020 - Nov. 2020	12/31/2020	55,481	2,667,245	1/20/2021	49430	1/27/2021	7
Dec. 2020 - Feb. 2021	3/31/2021	64,767	3,332,285	4/21/2021	135333	2/22/2022	307
Mar. 2021 - May 2021	6/30/2021	56,067	2,793,528	08/10/2021	88161	09/02/2021	23
June 2021 - Aug. 2021	9/30/2021	58,543	3,012,033	10/18/2021	135338	2/22/2022	127
Sept. 2021 - Nov. 2021	12/31/2021	85,125	4,379,702	1/19/2022	135339	2/22/2022	34
Dec. 2021 - Feb. 2022	3/31/2022	78,847	4,103,972	04/08/2022	137789	04/11/2022	3
		\$3,763,766	P184,358,813				

- 19.11. AEROTHAI submitted a quarterly remittance report for CAAP's Very High-Frequency Data Link (VDL) Revenue to the CAAP Finance Department and Air Navigation Service. AEROTHAI also submitted to ANS the monthly statistical reports containing the Philippine Traffic and Performance Summary of the existing Remote Ground Stations but these reports did not likewise show the supporting details for the computation of the revenue generated for the month. No other relevant documents were submitted that could be used by the Accounting Division as a basis for the monthly recognition of accrued income, thus, CAAP recognized income in its books of accounts only upon receipt of the quarterly remittance and not in the period when the income was earned. This practice is not in conformity with PAS 1 which requires that under the accrual basis of accounting, income is recognized in the books of accounts when it is earned rather than when the cash is received. This, likewise, resulted in the net understatement of the Communication Network Fees account by P8.984 million and Retained Earnings by P3.665 million.
- 19.12. Audit also revealed the recurring delays in the issuance of Official Receipts ranging from 3 to 319 days after receipt of AEROTHAI's remittance of CAAP's revenue share. The Accounting Division explained that no one was designated to monitor AEROTHAI's remittances and they did not maintain a subsidiary ledger for this particular account that would facilitate the monitoring of the remittances, thus, causing the delay in the issuance of Official Receipts and the recording of income in the books of accounts.
- 19.13. **We recommended and Management agreed to:**
1. **Revisit the existing Agreements with AEROTHAI for the Operation and Maintenance of VHF Air-Ground Data Link Stations and consider introducing amendments by adding provisions relative to the following:**
 - a. **AEROTHAI's submission of a monthly detailed income summary report with supporting documentation that would facilitate the accrual recognition of income as well as the verification of the accuracy and completeness of the CAAP revenue share;**
 - b. **An updated list of Multi-Service Ground Stations (MSGs)/Remote Ground Stations (RGS) installed in various locations in the Philippines, where ownership of the communication facilities has already been transferred to CAAP; and**
 - c. **The effects and legal implications of the acquisition of the Aeronautical Radio, Incorporated (ARINC) by Collins Aerospace and other pertinent matters with respect to the existing Agreement.**
 2. **Direct the Accounting Division to adopt the accrual basis of accounting as required under PAS 1; and**

3. **Direct the Finance Department/Accounting Division to designate personnel who will be responsible for the following:**
 - a. **Validation of the accuracy and completeness of data upon receipt of the required detailed income summary report and its supporting documents; and**
 - b. **Maintenance of subsidiary ledger for the close monitoring of remittances and to ensure the prompt issuance of official receipts and timely recording of income in the books of accounts.**
- 19.14. The Finance Department furnished the Audit Team with the copy of email addressed to AEROTHAI requesting relevant reports to support the computation of the revenue share generated as well as the basis for the accrual recognition of income.
- 19.15. Further, the Acting Chief of Air Navigation Service (ANS) gave an assurance on behalf of the Management to revisit the existing Agreement of CAAP with AEROTHAI and introduce amendments by adding necessary provisions cited in the audit recommendations. The proposal on the said amendments will be presented by the ANS to the new CAAP administration.
- 19.16. The Accounting Division also committed to designate another personnel who will be responsible for the validation of the accuracy of shared income, timely recording of remittances, and maintenance of the subsidiary ledger.
20. **The faithful representation of the year-end balance of Advances to Contractors account amounting to P7.910 million could not be ascertained due to the inclusion of dormant and unrecouped balances in the total amount of P3.566 million for various projects that remained long outstanding in CAAP-HO books of accounts and/or had been terminated.**
 - 20.1. Paragraph 15 of Philippine Accounting Standard (PAS) 1 on Presentation of Financial Statements provides that “Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.”
 - 20.2. The *Advances to Contractors* account is debited to recognize the amount advanced to contractors/sub-contractors as authorized by law. The account is credited for adjustments, and/or recoupment of advances in accordance with item 4.3 of Annex “E” of the Revised Implementing Rules and Regulations (RIRR) of Republic Act No. 9184 prescribing the Contract Implementation Guidelines for the Procurement of Infrastructure Projects.
 - 20.3. As of December 31, 2021, the *Advances to Contractors* account had an outstanding balance of P7.910 million. Analysis of accounts revealed that the said balance included dormant advances recorded in CAAP-HO books of accounts totaling P3.566 million that were granted to various contractors.

Table 28. Dormant and Long Outstanding Unrecouped Advance Payments

Particulars	Date Granted	Amount	Remarks
Continuation of the Development of Casiguran Airport Project	Aug-11	P 1,815,103	With Variation Order
Improvement of First and Fourth Floor of Main Bldg. and other CAAP Main Office selected Areas	May-13	1,309,920	Per available records, the contract was terminated.
Repair of VFR room and other floor levels at Control Tower Bldg., NAIA (under ATO)	Jul-05	218,467	ATO balances assumed/forwarded to CAAP books.
Expansion of Passenger Terminal Building-Tagbilaran Airport (AC VII)	Apr-12	94,297	No information/ record in the books of AC VII. No data per ADMS
Repair/improvement of perimeter fence at NDB Station at Rosario Cavite (under ATO)	Dec-07	43,407	ATO balances assumed/forwarded to CAAP books.
System Development of Auto AES (under ATO)	Jan-02	33,000	ATO balances assumed/forwarded to CAAP books.
Widening of Apron of Sanga-sanga Airport, Bongao, Tawitawi (AC IX)	Apr-12	29,020	No data available per ADMS
Construction of three (3) storey FSS Bldg. at Basco Airport (AC II)	Jul-09	22,914	No data available per ADMS
		P 3,566,128	

- 20.4. Verification of records disclosed that the dormant accounts pertain to completed or terminated projects while some have no supporting documents. This observation was already embodied in prior years' audit reports.
- 20.5. CAAP-HO Accounting Division (AD) said that the above mentioned projects were implemented way back 2013 and prior years, thus, they were having difficulty locating and verifying the documents relative to the transactions.
- 20.6. The inability of CAAP to verify the accuracy of Air Transportation Office (ATO) balances, recover the advance payment for the terminated project, and validate the long outstanding balances of the above mentioned projects resulted in an unreliable balance of the *Advances to Contractors* account presented in the financial statements as of December 31, 2021.
- 20.7. We recommended that Management:**
- 1. Direct the Accounting Division to:**
 - a. Evaluate the validity and accuracy of the *Advances to Contractors* pertaining to the defunct Air Transportation Office account balances that were carried over in CAAP books of accounts;**
 - b. Locate the supporting documents for the Expansion of Passenger Terminal Building at Tagbilaran Airport and Widening of Apron of**

Sanga-sanga Airport projects to ensure the existence of advances granted, and take appropriate actions to recoup, if applicable;

- c. Coordinate with Aerodrome Development and Management Service (ADMS) and Area Center II for the details, status, and supporting documents of the Construction of FSS Building at Basco Airport project;**
 - d. Make the necessary adjustments in the books of accounts, if warranted, to update the balance of the account;**
- 2. Direct the Aerodrome Development and Management Service (ADMS) to:**
- a. Check the provisions of the contract of the terminated project, require the contractor to refund the remaining amount of advances granted to them, issue demand letter/s and exert efforts to exhaust administrative and legal means for the recovery of the advance payment;**
 - b. Check the provisions under Republic Act No. 9184 for the remedies that can be resorted to by CAAP to collect the advances to contractors on terminated projects;**
 - c. Create a database showing the status of CAAP and DOTr-funded projects that can be accessed by Project Engineers, ADMS, and AD to regularly monitor and update the status of the projects. Instruct all the Project Engineers to provide detailed information such as date of project completion, date of Certificate of Project Completion, date of technical inspection, date of Certificate of Final Acceptance, the status of the vouchers prepared, and/or any additional information regarding the projects to ensure an effective monitoring, timely and complete recoupment of the advances granted to contractors; and**
 - d. Implement an agency-wide policy prescribing the custody and proper turn-over of documents in case of change of assignment or separation of Project Engineers or CAAP employees.**

20.8. Management commented that CAAP-HO Accounting Division have been trying their best in retrieving documents that were carried over from the books of accounts of the ATO. However, the documents kept in the storage room were mostly damaged by floods and termites, thus, were no longer readable. Further, CAAP-HO Accounting Division had already sent a letter to CAAP-HO ADMS requesting assistance in locating documents or information regarding dormant and long outstanding unrecouped advance payment.

20.9. Management also commented that CAAP-HO ADMS implemented four of the above-mentioned projects while the remaining projects were implemented by CAAP-HO Air Navigation Service (ANS). CAAP-HO ADMS committed to issue demand letters to recoup the balances of advance payment and direct the

concerned Project Engineers for proper turn-over of project documents prior to change of assignment and/or separation/resignation/retirement. Further, the database was already created for monitoring of projects. Lastly, they also committed to provide pertinent supporting documents to the Audit Team for validation and verification.

B. OTHER OBSERVATIONS

21. CAAP's acceptance of the Philippine Airlines' (PAL) final proposal to settle its outstanding obligations of P6.965 billion as of July 30, 2017, resulted in under-collection and condonation of P1.323 billion receivables from the latter, was without the approval of the CAAP Board of Directors and contravened the provisions under Section 27 (3) (b) (xxi) of the IRR of RA No. 9497 and Section 20 (1), Chapter 4, Subtitle B, Title I, Book V of Executive Order No. 292 Administrative Code of 1987.

- 21.1. Section 27 (3) (b) (xxi) of the Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9497, otherwise known as the Civil Aviation Authority Act of 2008 provides the powers, duties, and responsibilities of the Director General, which include, among others, that, xxx "Pursuant to a board resolution, to enter into, make and execute contracts of any kind with any person, firm, or public or private corporation." (underscoring supplied)
- 21.2. On the other hand, Section 20(1), Chapter 4, Subtitle B, Title I, Book V of Executive Order No. 292 Administrative Code of 1987 provides the Power to compromise claims, that xxx "In case the claim or liability exceeds one hundred thousand pesos, the application for relief therefrom shall be submitted, through the Commission and the President, with their recommendations, to the Congress."
- 21.3. As part of the revenue-raising measures, CAAP recognized the necessity to pursue the negotiation with PAL Management who, for several years, contested and had claimed exemption from payment of air navigational charges and other related fees for the use of CAAP's airport facilities throughout its operations under its legislative franchise. Thus, on October 29, 2008, Board Resolution No. 08-014 was adopted, stating that, xxx "Director General be vested with the authority to continue the negotiation with PAL Management until a mutually acceptable financial settlement is reached, subject to the condition that the final settlement package shall be submitted to the Board **for approval prior to implementation.**"
- 21.4. On August 1, 2016, the Director-General (DG) issued a demand letter to PAL to settle its obligations from the unpaid air navigational fees and charges in the amount of P6.632 billion, from 1977 to December 31, 2015. In its reply dated August 9, 2016, PAL maintained its position that it is exempt from paying the governmental fees and charges under its legislative franchise. Nevertheless, without admitting their liability as to the amount demanded, PAL had requested the relevant copies of invoices and other documents detailing the assessed charges.

- 21.5. In its letter dated May 4, 2017, PAL confirmed the receipt of the demand letter and the requested copies of invoices, which only amounted to P3.611 billion. Notwithstanding the variance between the amount demanded and the submitted supporting invoices, PAL offered to pay the amount of P4.000 billion payable in seven years. CAAP rejected the offer.
- 21.6. CAAP determined that the P3.611 billion pertain only to billings issued from CYs 2006-2016. The Accounting Division had collated the records from all of its Area Centers (AC), except for AC XII, and was able to recover the old Statements of Account (SOAs), which showed a total amount of P2.996 billion only. Based on the available records as of July 30, 2017, CAAP was able to establish PAL's outstanding receivables in the total amount of P6.965 billion.
- 21.7. On September 26, 2017, President Rodrigo Duterte issued a public demand against PAL to immediately pay its long outstanding obligation to the government. CAAP's DG issued a final demand letter imposing the settlement of PAL's outstanding obligations within ten days.
- 21.8. In a letter dated October 6, 2017, PAL offered a one-time payment of P6.000 billion as the full and final settlement with CAAP and MIAA, with the condition that no any further reconciliation of any form and further resubmission of any additional receipts or documents shall be made and both CAAP and MIAA bind their respective offices not to pursue any suit, demand or any other right of action against PAL. The proposal was accepted and signed by the DG of CAAP and the General Manager of MIAA. On November 3, 2017, PAL paid CAAP the amount of P5.678 billion, as evidenced by Official Receipt No. 1391813.
- 21.9. While, indeed the Director General was authorized to negotiate with PAL Management until a mutually acceptable financial settlement is reached, said authorization was merely for the purpose of negotiation and as whatever may have been negotiated with PAL is still subject to the condition that the final settlement package be submitted to the Board for approval prior to implementation.
- 21.10. To confirm that such condition was complied with, the Audit Team requested from Management copy/ies of board resolution. However, no board resolution has been provided but instead the Office of the Corporate Board Secretary submitted the following board materials related to the settlement of PAL Receivables that was used during the 55th CAAP Regular Board Meeting on November 27, 2017, to wit: 1) Memorandum from the DG for the CAAP Board of Directors dated November 27, 2017 re: Report on the Settlement of CAAP Receivables; and 2) Office of the Government Corporation Counsel (OGCC) Opinion No. 125 series of 2017 dated June 13, 2017 "Whether CAAP may negotiate with Philippine Airlines regarding its Unpaid Navigational Charges."
- 21.11. The Audit Team noted that approval of the board did not appear on the board materials and the memorandum attached thereof was dated November 27, 2017, or 24 days already after the implementation of the Compromise Agreement. Item 9 thereof disclosed that on November 3, 2017, PAL tendered

payment to CAAP the amount of P5.678 billion as full and final settlement of its obligations covering the periods from 1980 - July 30, 2017 and the amount of P1.287 billion was condoned/written off by CAAP.

- 21.12. It could be inferred that Management used OGCC Opinion No. 125 as the basis of their decision to enter into the compromise agreement with PAL. OGCC advised that in order to ensure that any settlement CAAP enters into with PAL would be under terms and conditions most advantageous to it, CAAP shall take into account and comprehensively assess the legal matters that may affect CAAP's bargaining position, including the strength of their legal stance against PAL's claim for exemption, the necessity to substantiate the documentary evidence and the possible defenses on the prescription of claims.
- 21.13. The said opinion was not clear on how settlement is to be implemented but it still recognized that the settlement of any claim is done through the approval by the Board, as the one who exercises the corporate powers of CAAP when OGCC stated on its final note that "... while CAAP has the authority to negotiate and approve the settlement of unpaid navigational charges of PAL, the Board, prior to any approval of the proposal, should be guided by a commitment to uphold the interest of CAAP at all times."
- 21.14. The agreement among CAAP, MIAA and PAL was considered a compromise since it involves reciprocal concessions from the parties, such that PAL will pay a part of the debt that it owes to CAAP and MIAA, while CAAP and MIAA in turn bind themselves to not pursue any suit, demand, or any right of action against PAL. Consequently, as a compromise, the said agreement should have followed Section 20(1), Chapter IV, Subtitle B, Title I, Book V of EO No. 292 cited above. Without which, the subject final settlement package/compromise agreement between CAAP and PAL, which resulted in condonation and under-collection of the P1.323 billion remaining receivables from PAL, was deemed null and void. Likewise, the agreement deprived the government of the much-needed funds.
- 21.15. Moreover, audit revealed that PAL's unpaid obligations as of July 30, 2017 did not include the uncollected PAL accounts in the books of accounts of AC XII amounting to P39.971 million. This amount was not transferred to the books of accounts of CAAP-HO at the time of the consolidation of all the unpaid fees and charges of the said airline company and was only identified by the new Area Accountant in December 2019.
- 21.16. **We recommended that Management:**
 - a. **Collate all the necessary documents pertaining to the uncollected receivable from PAL and submit a request for condonation to the Congress through the COA and the President, otherwise, pursue the collection of the outstanding P1.323 billion; and**
 - b. **Initiate the transfer and consolidation of uncollected PAL accounts from the books of accounts of Area Center XII to that of CAAP-HO.**

- 21.17. Management committed to exert its best effort to retrieve all the pertinent documents pertaining to the uncollected PAL accounts. Meanwhile, the preparation of the JEV for the transfer of uncollected PAL accounts from the books of accounts of AC XII to CAAP-HO is already in process.
- 21.18. On June 8, 2022, the CAAP Enforcement and Legal Service (ELS) provided the Audit Team with the copy of a letter to PAL dated June 7, 2022 informing them that PAL still has unpaid air navigational and other charges and final demand was made upon PAL to pay CAAP within 10 days the amount of P1.327 billion.
- 21.19. In its letter reply to CAAP dated June 17, 2022, PAL acknowledged the receipt of the above demand letter. However, they mentioned that based on the latest Statement of Account (SOA) issued by CAAP, including all billings from the HO and Area enters as of March 31, 2022, PAL's overall outstanding liabilities amounted only to P392.835 million. Thus, they requested for the breakdown, details and supporting documents for the amount demanded to be settled.
- 21.20. PAL pointed out that they are disputing some of the charges in the SOA, including but not limited to those that were already covered by the settlement made in November 2017. Further, they informed that they have been in coordination with CAAP as they are exerting all efforts in good faith to meet their obligations.
- 21.21. Inquiry with the Accounting Division disclosed that the latest statement of account received by PAL as of March 31, 2022 pertained only to current billings which did not include those charges that already formed part of the P6.965 billion.
- 22. CAAP disbursed the amount of P76.188 million as grant to airline operators beyond the prescribed six-month period contrary to the provisions under Section 4 (gg) (2) of RA No. 11494 and Section 1 of RA No. 11519, hence, the transaction is deemed irregular.**
- 22.1. Republic Act (RA) No. 11494 or the Bayanihan to Recover as One Act was passed on September 11, 2020, which declared a state of national emergency over the entire country in view of the continuing rise of confirmed cases of COVID-19. Section 4 (gg) (2) thereof directed the Department of Transportation (DOTr) to provide grants for applicable regulatory fees to critically-impacted businesses in the transportation industry and that any critically impacted business may avail of the grant for a period of not more than six (6) months.
- 22.2. Furthermore, on December 29, 2020, RA No. 11519 known as the Bayanihan to Recover as One Act was approved by the President and extended the availability of Appropriations under RA No. 11494 until June 30, 2021. It stated that the balances of fund transfers between agencies, instrumentalities and government-owned and –controlled corporations which, while obligated, remained unused, unutilized, unexpended, and undisbursed as of June 30, 2021 shall revert to the unappropriated surplus of the General Fund.

- 22.3. Meanwhile, Section 3 of COA Circular No. 2012-003 dated October 29, 2012 re: Updated Guidelines for the Prevention and Disallowance of Irregular, Unnecessary, Excessive, Extravagant and Unconscionable Expenditures defined “Irregular Expenditures” as “an expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws. xxx A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular. A transaction which fails to follow or violates appropriate rules of procedure is, likewise, irregular.”
- 22.4. CAAP received the amount of P300 million from DOTr in December 2020 to subsidize air navigation charges, landing and take-off fees, and parking fees of Air Operators categorized as Critically-Impacted Businesses in the aviation sector.
- 22.5. Analysis of transactions revealed that CAAP disbursed P76.188 million but the expenditures were not in accordance with the provisions under Section 4 (gg) (2) of RA No. 11494 and Section 1 of RA No. 11519. Out of the said amount, P6.907 million was paid before the end of June 2021 but these were availed of in excess of the allowed six-month period. While the amount of P69.281 million was disbursed in July 2021, or after the June 30, 2021 deadline. Hence, the total expenditure of P76.188 million was deemed irregular.
- 22.6. The Audit Team noted that the last two checks relative to the grant of subsidy were issued in July 2021 amounting to P69.281 million. The said amount should have been reverted to the unappropriated surplus of the General Fund as explicitly stated under RA No. 11519. Likewise, the disbursement of funds after June 30, 2021 was contrary to the provision under Section 1 of the said Act.
- 22.7. Inquiry with the Accounting Division (AD) disclosed that prior to the processing for the disbursement of the remaining funds as of June 30, 2021, they communicated with the DOTr and allegedly, they were advised to continue with the disbursement. However, the AD was not able to provide any documentation to support such claim.
- 22.8. Further review of the liquidation report disclosed that one air operator availed of the grant for seven months while the 15 others benefited from it for eight months, which was beyond the six-month period explicitly provided under Section 4 (gg) (2) of RA No. 11494 and MC No. 32-2020.
- 22.9. Also, the Audit Team requested from the Accounting Division to provide the copy of four billing statements amounting to P328,619, however, as of this date, said statements were not yet submitted, thus, could not be validated as to the period covered by the bills and the validity of the transactions.

- 22.10. We recommended that Management submit the following:**
- a. An explanation for allowing the air operators to avail of the grant beyond the prescribed six-month period;**
 - b. Justification why the amount of P76.188 million granted as assistance to air operators and disbursed after June 30, 2021 which was beyond the timeline prescribed under RA No. 11519, should not be disallowed in audit; and**
 - c. Copies of the four billing statements that were not yet provided to the Audit Team, for review.**
- 22.11. The Accounting Division (AD) commented that while the billing statements were processed after the billing period, nevertheless, the assistance to air operators were given based on their flight dates from November 2020 to June 30, 2021.
- 22.12. During the Exit Conference, the AD apologized for the delay in submission of the four billing statements due to technical difficulty that they encountered. In response, the Audit Team stated that only two of the four billing statements were received as of that date.
- 22.13. The Audit Team emphasized that RA No. 11519 clearly stated that the fund balance which remained unused, unutilized, unexpended, and undisbursed as of June 30, 2021 shall revert to the unappropriated surplus of the General Fund. Since the transactions were conducted contrary to the provisions of the law, the Audit Team maintained its position that the expenditures of P76.188 million were irregular transactions.
- 23. Penalties amounting to P35.877 million incurred by the Security Agency due to offenses/violations were not meted out in full in violation of items 7.1.16 and 7.1.17 of the Terms and Conditions of the Contract, resulting in non-deduction of P27.256 million from billings of the Security Agency and weakened call to improve their services and deliverables in accordance with the Contract.**
- 23.1. Item 7.1.16 of the contract between CAAP and the Contractor provides that “the Security Agency comply with all the obligations and responsibilities stated in the provisions of the contract and contract documents. Non-compliance or violations shall be a ground for cancellation and/or termination of the Security Contract after due written notice”.
- 23.2. Also, Item 7.1.17 of the said contract provides that “the Security Agency authorizes CAAP to exact penalty or to deduct an amount equivalent for the offenses or violations committed by the contractor and its security personnel as specified in the Table of Offenses/Violations and Penalties”.
- 23.3. Post audit of disbursement vouchers disclosed that CAAP entered into a contract for the provision of security services in various satellites of CAAP Area

Center I. It was a three-year service agreement which took effect on February 2019 up to January 31, 2022.

- 23.4. As embodied in the agreement, the Security Agency shall provide manpower complement, firearms, extra magazine holder, ammunition, communication equipment/radio equipment, service vehicle, etc. In case of failure to provide and to comply with the provisions of the contract, corresponding penalties shall be imposed and CAAP was authorized to deduct from the billing statement for the period. The Table of Offenses/Violations and Penalties was an integral part of the contract.
- 23.5. While the Audit Team noted that Area Center I deducted a total of P8.621 million from the billings, strict application of the corresponding penalties in accordance with the Table of Offenses/Violations and Penalties resulted in as much as P35.877 million as of September 30, 2021. This meant that based on the reports of violations and recalculated penalties, deductions should have been P27.256 million more than the actual deductions. Correspondingly, the full amount of P35.877 million should have been retained by CAAP as undisbursed financial resources for all the noted violations and for security services which were obviously not rendered.
- 23.6. It was worth mentioning that aside from the provisions for penalties for each violation, the terms of the contract allowed CAAP to exercise its right to either extend or terminate the contract based on the results of the Security Performance Evaluation and Inspection Review and/or assessment of security needs. In this regard, the Audit Team noted that despite the repeated violations on the absence/lack of required equipment from February 2019 to March 2021, the same were not reported by CAAP Security and Intelligence Services (CSIS) having direct supervision on the operation and performance of undertakings under the contract.
- 23.7. The CSIS in the area center and each of the satellite offices should have exercised its authority and prerogative to conduct inspections of the guards during their tour of duty; instituted measures; and implemented plans/programs aimed to upgrade the state of general preparedness, among others, as stated in Item 10.3 of the contract.
- 23.8. Inquiry disclosed that the actual deductions were based on the unnumbered Memorandum of the Director General of CAAP dated December 10, 2019. The Memorandum authorized Area Centers I and II for the payment of Security Services Fee despite continuous violations by the Contractor on the stipulations of the contract. The said Memorandum was Management's basis for the withholding of penalties up to 10 per cent of the total billing for the period.
- 23.9. **We recommended that Area Center I Management:**
 - a. **Instruct the CAAP Security and Intelligence Service (CSIS) to strictly supervise the operation and performance of undertakings under the contract and prepare regular assessment reports based on the daily inspection by CSIS Area/Stationed Supervisors summarizing all**

information on observed violations as well as corresponding recommendations which may be considered for the cancellation and/or non-renewal of the agreement;

- b. Require the Finance personnel to prepare a follow-up communication on the resolution of the validity of penalties enforceable against the Contractor; and**
 - c. Direct the Finance personnel to deduct penalties based on the Table of Offenses/Violations and Penalties from succeeding billings considering that these are explicitly identified in the contract of agreement and issue demand letter/s for the collection of the unpaid penalties which amounted to P27.206 million.**
- 23.10. Management commented that liquidated damages (LD) were damages agreed upon by the parties to a contract, to be paid in case of breach of contract. The parties to a contract were at the liberty in determining the imposable damages as long as it is within the bounds of law. As a result, LD or penalties came in different forms and nomenclature as long as intend to be legally and voluntarily bound by it.
- 23.11. Management further claimed that LD, whether intended as an indemnity or a penalty, should be equitably reduced if they were iniquitous or unconscionable. CAAP deemed best to follow the 10 per cent LD mentioned in the IRR of RA No. 9184 as the limit because it is reasonable. The Security and Services contract is not an ordinary contract but one that is imbued with public interest. The contract is not only governed by the Civil Code and RA 9184 but, it is also governed by the Labor Law.
- 23.12. It was added that under the Labor laws, CAAP, being the principal, is solidary liable to the extent of the work performed under the contract when the Principal Security Agency failed to pay the wages of its employees, as provided for in Article 106 of the Labor Code, as amended.
- 23.13. Furthermore, Management asserted that collecting the actual penalty may arise to a situation wherein the Contractor could no longer pay the salaries and wages of the security guards and in turn, CAAP would be exposed to a potential floodgate of labor suits. CAAP, in choosing the ten per cent limit, wanted to preserve industrial peace among parties particularly to the security guards. Also, the uncompromised security of all airports was taken into consideration when CAAP decided to impose the ten percent of the billed amount/monthly contract price as penalty.
- 23.14. Management further contended that the imposition of the ten per cent of monthly billed amount is reasonable and more than the LD under RA No. 9184 which is equal to at least one-tenth of one percent of the cost of the unperformed portion of the works for every day of delay. The rates provided under RA No. 9184 is far more below than the rates provided for by the contract. With this, CAAP is compliant in terms of collecting the penalties against the Contractor for breach of contract.

- 23.15. The Audit Team's rejoinder are summarized as follows:
- a. *On Liquidated Damages (LD) under the Civil Code and the ten per cent LD under RA No. 9184*
- 23.16. The Audit Team disagreed with Management's justification for the ten per cent liquidated damages cap mentioned in the IRR of RA No. 9184, which was deemed as "reasonable".
- 23.17. Under the Civil Code, liquidated damages are agreed upon by the parties to a contract, to be paid in case of breach thereof. However, since the contract was already perfected and consummated, it is basically understood that the contracting parties are bound by the terms, unless it is contrary to laws, morals, public policy and public order.
- 23.18. The argument on LD, with all due respect, is flawed. A cursory reading of Rule XXII (Civil Liability), Section 68, Implementing Rules and Regulations (IRR) of RA No. 9184 provides:
- 23.19. "All contracts executed in accordance with this Act and this IRR shall contain a provision on liquidated damages which shall be payable by the contractor in case of breach thereof. For the procurements of Goods, Infrastructure Projects and Consulting Services, the amount of liquidated damages shall be equal to one-tenth of one per cent of the cost of the unperformed portion for everyday of delay. Once the cumulative amount of liquidated damages reaches ten per cent of the amount of the contract, the Procuring Entity may rescind or terminate the contract, without prejudice to other courses of action and remedies available under the circumstances".
- 23.20. The provision is clear in its language that the cap of 10 per cent of LD could be a ground, with the modal, "may", of rescinding or terminating the contract by the Procuring Entity, and does not serve as a limit for the imposition of liquidated damages, as claimed by Management. The justification on the applicability of this provision is irrelevant. The provision speaks of everyday of "delay" for unperformed portion which is not clearly the case in the contract for security services.
- 23.21. The Team emphasized that penalties communicated were due to violations in the performance of the Contractor and computed in accordance with the Table of Offenses/Violations and Penalties. Both the contracting parties are fully aware of the contents of the table as these were clearly enumerated and made integral part of the contract.
- 23.22. On the LD that could be equitably reduced if iniquitous or unconscionable under Article 2227 of the Civil Code, the Audit Team maintained that while the amount of accumulated penalties is indeed significant, reduction can only be made when there is clear and convincing evidence that such is indeed iniquitous or unconscionable.
- 23.23. Moreover, the Audit Team stressed that CAAP is not expected to be the one invoking such reduction, when in fact, it is clearly the aggrieved party and must

be asserting its rights to collect the penalties on the basis of the binding terms of the contract. While the Audit Team understood the compassion as it may seem, CAAP should not disregard that the penalties are rightfully due to the government for the violations on the part of the Contractor. It is worth mentioning that CAAP engaged the services of the security agency for the best interest of the Government and that the Contractor is presumed to have scrutinized its expected deliverables as well as the corresponding sanctions under specific circumstances.

b. The Labor law is not applicable to the contract between CAAP and the Contractor

- 23.24. The contract referred to in the AOM is between CAAP and the Contractor, which is purely civil in nature, and the terms are clearly articulated in the Contract of Agreement. It is separate and distinct from the contract between the Contractor and its employees, which is the labor contract that Management might be referring to. Hence, when it was claimed that the instant contract is imbued with public interest and is not only governed by the Civil Code and RA No. 9184 but is also governed by the labor laws, the argument is obviously misplaced as far as CAAP is concerned.
- 23.25. Contrary to the statement that CAAP, being the Principal, is solidarily liable to the extent of work performed under the contract when the Principal Security Agency fails to pay the wages of its employees as provided for in Article 106 of the Labor Code as amended, it is the Audit Team's contention that CAAP could not be involved in what could be considered the internal affairs of the security agency-a mere contracting party/service provided.
- 23.26. CAAP is not a Principal as defined in the Labor Law because it is not an employer- it is merely a government procuring entity which outsourced security services. There is no trilateral relationship (that involves a Principal, Contractor/Subcontractor and those employed by the Contractor/Subcontractor) as described in the Rules Implementing Articles 106 to 109 of the Labor Code as amended.
- 23.27. The claim that the imposition of penalties based on the Table of Offenses/Violations and Penalties will expose CAAP to potential floodgates of labor suits was not considered valid by the Audit Team, simply because CAAP had nothing to do with how the service provider conducted its business and compensation for the security personnel is the sole responsibility of the Contractor as their employer. The only obligation of CAAP is to pay the Contractor for the deliverables as embodied in the contract and all its integral parts. It could not be held liable for obligations that may arise from the employer-employee relationship of the Contractor and the security personnel it hired to render the service on its behalf.
- 23.28. The Audit Team did not question the rightful compensation of the security personnel who rendered actual services. The audit issue is on the monetary liability of the Contractor for breach of contract/frequent violations from February 2019 to March 2021. It is grossly disadvantageous to CAAP to waive the imposition of full penalties on the basis of contract terms when there were

frequent absences of required firearms/ammunitions/equipment and occurrence of abandoned posts.

c. The Actual Penalty is Exorbitant and Iniquitous

- 23.29. Reiterated for emphasis is the fact that the computed penalties were dependent on the frequency of actual violations/omissions and the corresponding rates for each as clearly cited in the terms of the contract. Had the Contractor conscientiously performed its contractual obligations, CAAP would not have to impose penalties.
- 23.30. After all, it is incumbent upon the Contractor to minimize violations and the related avoidable costs in favor of its business operation. It is not the terms that made the penalties seemingly exorbitant and iniquitous for the reason that such were mutually acceptable to both parties whose representatives signed the contract of agreement. It is the Contractor's flawed management of its contractual obligations that caused the accumulation of the significant amount of penalties. While it saved on costs for not providing the required firearms/ammunitions/equipment and personnel for the period, the security agency incurred, on its own, the equivalent penalties.
- 23.31. The Audit Team therefore maintained the recommendations for the observations on the enforcement of penalties.
- 23.32. During the Exit Conference, the AC I Management commented that they already made actions to demand the payment of penalties from the erring Contractor.
- 24. Domestic Passenger Service Charges (DPSCs) amounting to P13.786 million, that should have been collected from departing passengers in three airports in Area Center IV, were not remitted in full by the Air Carriers (ArCs) to CAAP contrary to Memorandum Circular (MC) No. 022-17, series of 2017 due to the failure of CAAP to monitor the accurate amount of remittance and to compel the ArCs to remit the same, hence, depriving CAAP of the much needed funds that could have been used for its operations.**
- 24.1. DPSC are charges collected from passengers for the use of the airport area before they depart for their destination. This is equivalent to the "terminal fee" that was included in plane ticket fare from the ArCs.
- 24.2. Item 6 of MC No. 022-17, series of 2017 prescribes the guidelines pertaining to DPSC such as the responsibilities of the Air Carrier, the date of remittance and consequences in case of failure to remit DPSC in full amount to CAAP.
- 24.3. Verification of the remittances reports received by the Area Center IV, Puerto Princesa City disclosed that the collected DPSC by the ArCs from departing passengers for CY 2021 were not remitted in full by the ArCs to CAAP as of December 31, 2021 contrary to the above provisions. The total collections for CY 2021 of the Area Center IV should have amounted to P13.786 million based on the departing passengers monitored, however, the remitted amount as

indicated in the reports forwarded by CAAP-HO was only P2.303 million resulting to unremitted amount of P11.483 million.

- 24.4. While it is the responsibility of ArCs to timely remit all DPSC collected as provided for in Item 6.1, Section 6 of MC No. 022-17, Management of each area should have monitored and informed CAAP-HO of the compliance of the ArCs so that CAAP-HO may take appropriate action to compel the ArCs to remit the same in the event of non-compliance to ensure that all DPSC collections due were remitted on time.
- 24.5. **We recommended that Area Center IV Management:**
 - a. **Coordinate with CAAP-HO and provide them report on the actual departing passengers every month which the CAAP-HO collecting officer would use as the basis for determining the accuracy of the DPSC remitted by the Air Carriers to them; and;**
 - b. **Discuss sanctions and/or system with CAAP-HO that could be applied to the Air Carriers landing in the Palawan CAAP Area by which they would be compelled to pay the unremitted collections for CY 2021 amounting to P11.483 million with the corresponding interest, and thereafter remit to CAAP HO the correct amount of DPSC.**
- 24.6. Management commented that the Area Center (AC) would adhere to the recommendations to coordinate with CAAP-HO and provide the report on the actual departing passengers every month from which the CAAP-HO collecting officer would use as the basis for determining the accuracy of the DPSC remitted by ArCs to them. Area Center IV had previous communications with CAAP-HO as to the determination and reconciliation of the number of passengers who departed vis-à-vis the amount remitted to CAAP- HO. The AC Management is continuously using monitoring tools such as terminal fee checklist from AC Inspectors that would serve as the record for reconciliation against the remittance reports provided by the airlines to CAAP-HO. Furthermore, Area Center IV would request CAAP-HO to regularly provide them a copy of the remittance report submitted by the ArCs.
- 24.7. The AC Management also commented that initial information was obtained that CAAP-HO would amend the previously issued Memorandum for DPSC to resolve the issues and provide for an additional system to implement the integration of DPSC, which would address the issues of unremitted collections for DPSC and imposition of interest for late remittance of ArCs. AC IV Management is still waiting for the issuance of the said amendments.

- 25. The prescribed Property, Plant, and Equipment Ledger Cards (PPELC) and Property Cards (PC) were not maintained, thereby defeating the purpose of these cards to facilitate reconciliation of PE accounts between accounting and supply records.**
- 25.1. The Conceptual Framework for Financial Reporting states that “If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.”
- 25.2. It also provides that:
- “2.25 Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items*
- 2.30 Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent.”*
- 25.3. Also, Items 6.3 of COA Circular No. 2020-006 re: *Guidelines and procedures in the Conduct of Physical Count of PPE xxx for the One-Time Cleansing of PPE Account Balances of Government Agencies* further states that “the Property and Accounting Units shall undertake collaborative procedures to ensure that all PPEs included in the RPCPPE are duly recorded in their respective records and that the Property Cards (PC) maintained by the Property Unit and the PPE Ledger Cards (PPELCs) maintained by Accounting Unit are reconciled.”
- 25.4. Verification showed that both the Accounting Division (AD) and the Supply Division (SD) of CAAP-HO, Area Centers (ACs) V, VI, VIII, XI, and XII, did not maintain the required subsidiary records such as PPELCs and the PCs, or if maintained, were not prepared in the prescribed format, not updated, and lacked the necessary information needed to support the balances of PE accounts. Maintenance of such documents would aid the concerned divisions in facilitating the reconciliation of records. Due to the absence of these documents and the non-reconciliation of these records, the Audit Team was not able to perform alternative audit procedures and consequently, was not able to determine whether any adjustment is necessary.
- 25.5. We recommended that Management direct the Accounting Division and Supply Division of CAAP-HO, Area Centers V, VI, VIII, XI and XII to prepare and maintain the PPE Ledger Cards and Property Cards, respectively, in order to facilitate the periodic reconciliation of Report on the Physical Count of Property, Plant and Equipment, PE per records, PPELCs, and PCs.**
- 25.6. Management commented that CAAP-HO AD was maintaining two records in keeping track of the PPE accounts, the Subsidiary Ledger (SL) and the lapsing

schedule. CAAP-HO SD added that PCs were maintained using the prescribed format.

- 25.7. AC VI instructed the AD and SD to update the PPELCs and PCs.
- 25.8. The Accountant of AC XI acknowledged that they did not maintain PPELC and PC, and monitoring of PPEs was based on the lapsing schedules. The Management of the AC would designate personnel to organize the property records for the reconciliation between Accounting and Property Unit.
- 25.9. The Audit Team reiterated and CAAP HO AD agreed that PPELC should be maintained and should contain necessary information.

26. Taxes withheld on compensation from officers and employees, as well as on Government Money Payments (GMP), both Value-Added Tax (VAT) and Percentage Tax, and on the expanded withholding taxes from various suppliers totaling P54.350 million for CY 2021 were not remitted by CAAP-HO to the Bureau of Internal Revenue (BIR) within the prescribed period, thereby exposing CAAP to unnecessary penalties and interests.

- 26.1. The National Internal Revenue Code of 1997 (NIRC), as amended, defines a withholding agent as any person or entity who is in control of the payment subject to withholding tax and therefore is required to deduct and remit taxes withheld to the government.
- 26.2. CAAP as a withholding agent is required by pertinent laws, rules and regulations to withhold creditable withholding taxes and remit the same within the prescribed period.
- 26.3. Audit of the Due to BIR account in CAAP-Head Office revealed that out of P302.832 million taxes withheld for CY 2021, only P248.482 million were remitted to the BIR within the prescribed period. Meanwhile, P45.017 million were filed and remitted to the BIR, albeit beyond the prescribed period. On the other hand, the Audit Team was not able to ascertain whether the amount of P9.333 million withheld in CY 2021 were actually filed and remitted. Details are shown below:

Table 29. Summary of Remittances of taxes withheld for CY 2021

Withholding Taxes on	Taxes Withheld	Withholding Taxes Remitted within the prescribed period	Withholding Taxes Remitted beyond the prescribed period	Taxes withheld without evidence of remittance
MP – VAT and Percentage Tax	P 147,199,419	P 135,527,139	P 11,333,475	P 338,805
Compensation	102,629,031	64,823,717	28,959,699	8,845,615
Expanded	53,004,038	48,131,649	4,724,091	148,297
	P 302,832,488	P 248,482,505	P 45,017,265	P 9,332,717

- 26.4. The Audit Team noted that a significant amount of the P9.333 million balance were taxes withheld on compensation of officers and employees in CAAP-HO. Further, we observed that no remittances were paid and filed for taxes withheld on overtime, night differential, hazard pay, etc. in CY 2021 except for months where a different Accounting Division personnel filed and remitted the withholding taxes as the Accountant in-charge of the remittance to the BIR was on leave. The late remittance or non-filing and non-remittance of taxes withheld go against the established guidelines provided in the NIRC.
- 26.5. The Accountant in-charge of filing and remitting withholding taxes on compensation mentioned that he knowingly excluded, in the monthly remittance to the BIR, the taxes withheld from other claims aside from regular salaries of officers and employees of CAAP due to the alleged unavailability of data. He said that he planned on remitting the taxes withheld for these claims at year-end. However, when asked if he had any monitoring or tracking sheet of all taxes withheld that is yet to be remitted, he admitted that the Accounting Division did not employ any tool or system in monitoring the amount of withholding taxes to be remitted to the BIR. Noteworthy, the Accounting Division personnel in-charge of filing and remitting withholding taxes on Government Money Payments and on expanding withholding taxes answered, likewise, that she did not maintain any list of unremitted withholding taxes. This is contrary to the provisions set under Section 123 and 124 of PD No. 1445 which requires the installation of internal control. Considering the punitive implication of non-compliance with existing tax laws, Management should have installed necessary control measures to ensure taxes are appropriately and timely withheld and remitted.
- 26.6. The filing and remittance of withholding taxes beyond the prescribed period and/or the non-filing and non-remittance thereof, exposed CAAP to penalties and interests as provided under the aforementioned sections of the RMC/NIRC.
- 26.7. **We recommended that Management direct the Accounting Division to:**
- a. **Determine the amount of withholding taxes which are yet to be remitted to the BIR and remit the same immediately;**
 - b. **Strictly adhere in the timely remittance of withholding taxes; and**
 - c. **Establish policies and procedures that will monitor and ensure that all withholding taxes are timely remitted to the BIR.**
- 26.8. Management commented that the Accounting Division has already began tracing back transactions and remittances to identify taxes withheld which are yet to be remitted to the BIR. Some of the identified unremitted taxes were already remitted to the BIR in May, 2022. The Accounting Division likewise said that they will employ a system to ensure and monitor all taxes withheld are remitted.

27. Remittance of withholding taxes in CAAP-HO amounting to P142.881 million did not bear the approval of proper officials as prescribed under Section 4 of PD No. 1445.

- 27.1. Section 4 of PD No. 1445 provides that “Disbursements or disposition of government funds or property shall invariably bear the approval of the proper officials.”
- 27.2. CAAP’s Delegation of Authority Manual, as approved under CAAP Memorandum Circular No. 03-19 dated January 24, 2019, provides that all disbursements amounting to over P1 million shall have the recommending approval of the Chief Accountant, who shall certify the availability of fund/cash and the completeness of supporting documents and approval by the Director General, or the CFO, as the alternate.
- 27.3. Audit revealed that the remittances of withholding taxes totaling P142.881 million in CAAP Head Office were not supported with an approved Disbursement Voucher/s (DVs) which rendered the transaction questionable on whether the disbursement was duly approved by the Director General as embodied in CAAP’s New Delegation of Authority Manual.
- 27.4. The absence of the necessary approval made the disbursement of funds irregular. It is noteworthy that the same issue had already been observed in CY 2019 and was already resolved then. However, it appears that the Accounting Division had yet again favored the old practice of remitting withholding taxes without first securing the necessary approval in the DV. We reminded the Accounting Division that securing the approval of approving officers are not ministerial actions that could unceremoniously be forgone. It is one of the necessary checks and balances in ensuring propriety in every transaction involving government fund.
- 27.5. We recommended that Management direct the Accounting Division to:**
- a. Explain why it has been disbursing government funds without prior approval from the Director General or his designated alternate; and**
 - b. Secure post-facto approval for prior DVs and henceforth, exercise due diligence in ensuring that all disbursements bear the approval of proper officials.**
- 27.6. Management commented that the Accounting Division would revise their process to ensure that the remittances and online payments are approved by proper officials prior to payment/remittance. They informed that the post-facto approval of DVs had already been secured. However, per the Audit Team’s evaluation, the post-facto approval of DVs secured by the Accounting Division did not include DVs for remittances of taxes withheld amounting to P85.867 million.

- 28. Purchases of CAAP-HO of Common-Use Supplies and Equipment (CSE) for CYs 2020 and 2021 amounting to P3.301 million and P2.072 million, respectively, from the Procurement Service of the Department of Budget and Management (PS-DBM) were made without approval contrary to Nos. 5 and 6, Section 4 of Presidential Decree No. 1445. Likewise, the lack of control activities in the procurement of CSE through the PS-DBM Virtual Store exposes the resources of CAAP to possible risk of loss, wastage and misappropriation.**
- 28.1. COA Circular No. 2018-003 dated November 21, 2018 prescribes the use of *The Internal Control Standards for the Philippine Public Sector (ICSPPS)*. Part II of the ICSPPS provides that Internal Control Components must be applied by government agencies to achieve, among others, the objective of safeguarding resources against loss, misuse, and damage due to waste, abuse, mismanagement, errors, fraud, and irregularities. Key control activities deemed necessary are Authorization and Approval Procedures which provide that Management should ensure that employees obtain approval in all situations where approval is necessary; and Segregation of Duties wherein duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.
- 28.2. Moreover, for all types of disbursements, Section 4 (5 and 6) of Presidential Decree No. 1445 provides that *disbursements or disposition of government funds or property shall invariably bear the approval of the proper officials and that Claims against government funds shall be supported with complete documentation.*
- 28.3. Sections 8.3.1 and 8.3.2 of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act No. 9184 re: Use of PhilGEPS further provides that all procuring entities are mandated to fully use the PhilGEPS in accordance with the policies, rules, regulations, and procedures adopted by the GPPB, and that whenever the rules under this section is silent, the rules and regulations governing the manual method of procurement shall apply. Thus, prior to any purchase, the end-user unit or the duly authorized official or personnel shall submit a Purchase Request (PR) to the BAC for the procurement of the goods.
- 28.4. Virtual Store refers to a service of the PhilGEPS wherein agencies are allowed to view, search, select, and procure CSE online, through an Agency Buyer (AB) authorized by the Agency.
- 28.5. In CYs 2020 and 2021, CAAP utilized the Virtual Store to procure supplies amounting to P3.301 million and P3.376 million, respectively, for use in its operations. However, examination of records revealed that the entire amount of supplies procured via Virtual Store in CY 2020 had no valid basis due to the lack of an approved PR as required in the aforementioned guidelines. The same was observed in the purchase of supplies in CY 2021 amounting to P2.072 million.
- 28.6. Aside from the designated AB from the Procurement Division, the Audit Team observed that a personnel from the Supply Division was likewise designated as an AB. There being no policy/procedure that required the approval of PR

prior to placing an order, granting the Supply Division access to order supplies and equipment provides the said division an opportunity to procure CSEs and issue the same without the knowledge of Management. Meanwhile, inherent to the functions of its office, the Supply Division is in-charge of receiving, safekeeping and issuance of supplies inventory. While the Supply Division did not directly record transactions in the books of accounts, they were solely responsible for the issuance of the RSMI, which is a document used to support the recording of the issuance of supplies. The Supply Division likewise is responsible for the preparation of RPCI and Stock Cards, which are documents used in the review and reconciliation of records. Altogether, this gives the Supply Division complete access on the authorization, processing, recording and reviewing of purchases on the Virtual Store which is contrary with the provisions of the ICSPPS. While the Virtual Store did not require PR in placing orders, CAAP should impose controls to safeguard its resources as required by the ICSPPS.

- 28.7. Out of the P3.376 million worth of purchases in CY 2021, the SD AB was able to order supplies amounting to P268,310.
- 28.8. The purchase of supplies and equipment without an approved PR and the designation of the SD staff as Agency Buyer clearly showed that CAAP had weak internal control over the procurement of goods through the Virtual Store. This exposed the resources of CAAP to possible risk of loss, wastage and misappropriation.
- 28.9. Moreover, the Audit Team noted that purchased CSEs totaling P3.853 million for CYs 2020 and 2021 were charged against the outstanding advances of CAAP to PS-DBM which were allocated for prior years' procurement of supplies. However, the SD did not prepare/issue the Budget Utilization Request and Status (BURS) for any additional utilization as they have already prepared the same for the payment of advances to PS-DBM from the previous years. Also, since there was no additional payment to PS-DBM because current year purchases were charged directly from CAAP's outstanding advances, the AD was not aware of the change in budget utilization, hence, did not prepare the Notice of Budget Utilization Request and Status Adjustments (NBURSA) to account for adjustments in the utilization of a fund. BURS and NBURSA are necessary to take into account the utilization of prior years' corporate budget for current year purchases. These are source documents needed by the Budget Division to reflect the correct budget information in their reports, thus, should be prepared accordingly.
- 28.10. **We recommended and Management agreed to:**
 - a. **Formulate clear policies and procedures for the procurement of CSE through the PS-DBM Virtual Store and adopt internal control measures to ensure that assets of CAAP are adequately safeguarded;**
 - b. **Instruct the Supply Division to prepare and obtain approval of PRs before the procurement of supplies to ensure the validity of purchases;**

- c. **Designate an Agency Buyer and his alternate from the Procurement Division only. Likewise, cancel the registration and designation of the Supply Division staff as Agency Buyer; and**
 - d. **Secure post-approved PRs to support the previous orders in the Virtual Store and henceforth, require the preparation of BURs and NBURSA for any changes in the utilization of budget.**
- 29. The inability of the Area Center (AC) XII Management to formulate and implement Alternative Work Arrangement (AWA) during the implementation period of the Modified Enhanced Community Quarantine (MECQ) measures resulted in the entire regular and the job order personnel of the Butuan Airport to physically report for work, unduly necessitating the payment of COVID-19 Hazard Pay totaling P1.269 million despite the absence of written authority, and exposure of personnel to health risks and hazards contrary to Administrative Order No. 43 dated June 1, 2021, CSC Memorandum Circular No. 18, s. 2020 and CAAP Memorandum Circular No. 12-2020.**
- 29.1. Administrative Order (AO) No. 26 dated March 23, 2020, duly amended by AO No. 43 dated June 1, 2021, authorizes the grant of Hazard Pay, to be called as COVID-19 Hazard Pay, to government personnel who physically report for work during the period of implementation of an Enhanced Community Quarantine (ECQ) and Modified Enhanced Community Quarantine (MECQ) relative to the COVID-19 outbreak.
 - 29.2. Likewise, CSC Memorandum Circular No. 10, s. 2020 duly amended by CSC Memorandum Circular No. 18, s. 2020, provides the revised interim guidelines for Alternative Work Arrangements (AWA) and support mechanisms for workers in the government during the period of state of public health emergency due to COVID-19 pandemic. Pertinent provisions of the said CSC Memorandum Circular stated that the work-from-home arrangement shall be adopted in areas placed under Enhanced Community Quarantine (ECQ) and Modified Enhanced Community Quarantine (MECQ) as declared by the proper authorities.
 - 29.3. Further, for the promotion of the safety and health of CAAP employees and personnel and in compliance with the directives of the Office of the President on the ECQ, CAAP Memorandum Circular No. 12-2020 dated March 17, 2020 was issued for implementation and compliance of the work from home policy as a remedial measure due to the ongoing COVID-19 viral outbreak which shall be applicable to all CAAP personnel nationwide – permanent, contractual whether under Job Order or Contract of Service and LSERV-managed personnel. Pertinent sections of the said CAAP Memorandum Circular provide that:
 - 29.4. CAAP Health, Emergency Frontline and Critical Services were as follows:
 - a. Operations Personnel in Air Traffic Service
 - b. Operations Personnel in Air Navigation Service
 - c. Area Centers/Airport Operations Personnel

- d. CAAP Security and Intelligence Service (CSIS)
 - e. OFSAM and Medical Personnel
 - f. Operations Center (OPCEN)
 - g. Aircraft Accident Investigation Personnel
 - h. Philippine Aeronautical Rescue Coordination Center (PARCC)
 - i. Finance and Budget personnel involved in payroll and disbursement processes
 - j. Administrative staff and support personnel (whether permanent or contractual of the offices/services named above)
- 29.5. All other units in CAAP were deemed non-essential services and should strictly abide by the "Work-from-Home" directive of the Office of the President and this Memorandum Circular. This takes into account measures to ensure continuous provision of CAAP essential and critical services, and that no delays shall be unnecessarily incurred on CAAP infrastructure projects for implementation.
- 29.6. Verification of the Disbursements Vouchers (DVs) on the payment of COVID-19 Hazard Pay and its related supporting documents such as Payroll, Statement of Hazard Pay, Daily Time Record and Work Schedule, disclosed that AC XII disbursed a total amount P1.262 million and P114,000 for hazard pay to the regular and job order personnel, respectively, during the period which was declared as Modified Enhanced Community Quarantine (MECQ) per relevant Executive Order issued by the corresponding City/Province where the airports are located.
- 29.7. Review of the payment of COVID-19 Hazard Pay revealed that of the total disbursed amount of P1.376 million, P1.269 million or 92.2 per cent were granted to personnel of Butuan Airport.
- 29.8. Analysis revealed that all the regular and Job Order personnel of the AC XII, Butuan Airport physically reported for work during the period of implementation of MECQ measures in the area due to the inability of the Management to formulate and adopt/implement Alternative Work Arrangement (AWA), contrary to CSC Memorandum Circular No. 18, s. 2020 and CAAP Memorandum Circular No. 12-2020 dated March 17, 2020.
- 29.9. Moreover, written authority from the Area Manager authorizing the personnel to physically report for work at their respective offices/work stations on the prescribed official working hours during the period of implementation of ECQ and MECQ measures in the area of such office/work station as required under AO No. 26 dated March 23, 2020 was not provided. There being no AWA implemented, hence, validity of the payment/grant of COVID-19 Hazard Pay could not be established.
- 29.10. Thus, the above conditions were not only contrary to AO No. 43 dated June 1, 2021, CSC Memorandum Circular No. 18, s. 2020 and CAAP Memorandum Circular No. 12-2020, but also exposed the personnel of Butuan Airport to health risks and hazards. Likewise, the necessity of the number of personnel who physically reported for work at their respective work stations during the

period of implementation of MECQ measures in the area was not established. Moreover, the payment of COVID-19 Hazard Pay could not be validated.

- 29.11. We recommended that Management instruct Area Center XII to provide and submit the following, for further evaluation of their respective Audit Team:**
- a. Written explanation/justification in allowing all personnel to physically report for work during Modified Enhanced Community Quarantine (MECQ) and failure to formulate and adopt/implement Alternative Work Arrangement;**
 - b. Minimum personnel complement per Unit needed to ensure continuous provision of Area Center/Airport's essential and critical services; and**
 - c. Authority of personnel to physically report for work at their respective work stations on the prescribed official working hours by the Area Manager during the period of implementation of MECQ measures in the area of such work station to validate the payment/grant of Hazard Pay.**
- 29.12. Moreover, we recommended that Area Center XII Management ensure adherence to the requirements of Administrative Order No. 43 dated June 1, 2021, CSC Memorandum Circular No. 18, s. 2020 and CAAP Memorandum Circular No. 12-2020, for economic measures in the disbursements of COVID-19 Hazard Pay to avoid wastage of government resources.**
- 29.13. The AC XII Management commented and we quote:
- 29.14. "Observing Alternative Work Arrangement (AWA) - In an unprecedented pandemic such as this COVID-19, CAAP Butuan was in its most adherences with the guidelines issued by the Civil Service Commission and health authorities particularly in observing the Alternative Work Arrangement (AWA). We have attached various monthly work schedules to complement the unstable airport operations. There were instance however, where some personnel may have deviated from their original work schedules as this was believed necessary in addressing various unforeseen concerns that were brought by erratic flight schedules both from commercial, OWWA and non-revenue flights as airport has not stopped but rather only reduced its operation.
- 29.15. Exposing Personnel to Health Risks - In as much as this level had to diligently follow health guidelines, however, similar with the other government and private establishments alike, CAAP Butuan was also in a high dilemma on managing which one to prevail health protocol or public service thus sometimes deviation was inevitably unavoidable. Modesty aside, I humbly believe that despite the deviation, CAAP Butuan has never had a chance exposing its personnel to the deadly virus as disinfection in all airport facilities were regularly implemented to ensure a sanitized and virus-free work place and environment.

29.16. Hazard Pay - The release of the Hazard Pay was based on pre-requisite documentary requirements (DTRs, IATF Resolution, Work Schedules and Hazard Payroll) these have been diligently scrutinized and processed by the top divisions in the central office prior to its release. Most importantly, we believed that all were in order and legal. This level is earnestly appealing to the kind COA Auditor to consider the foregoing grounds as all unexpected issues and concerns arising during and up to this time that were brought by COVID-19 have tremendously affected every individual all over here and in all other countries. Understanding and kind consideration is what this humble appeal is praying for.”

30. The entitlement of several employees in CAAP-HO to the grant and payment of hazard pay could not be ascertained due to the lack of time entries in the attendance log book evidencing their physical attendance during the implementation of Enhanced Community Quarantine (ECQ) and Modified ECQ (MECQ) in CY 2021.

30.1. Section 1 of AO No. 26 dated March 23, 2020 as amended under AO No. 43 dated June 1, 2021 re: *Grant of Hazard Pay* provides that government agencies are authorized to grant COVID-19 Hazard Pay to personnel who report for work during the implementation of an ECQ or MECQ in their respective work stations in an amount not exceeding P500 per day per person.

30.2. Meanwhile, on July 15, 2020, an unnumbered Memorandum was issued by CAAP for the *Suspension of the Use of Biometrics/Finger Scan Machine*. The Memorandum provides that to prevent further transmission of the COVID-19 and ensure the safety and well-being of all employees, the use of Biometrics/Finger Scan Machine in recording the daily attendance is temporarily suspended starting July 20, 2020 until further notice. The logbook of each office shall be the official basis of the employee’s Daily Time Records (DTRs) to be submitted to the Human Resource & Management Division (HRMD) at the end of each month. The use of biometrics only recommenced on November 22, 2021 as required under the unnumbered Memorandum of CAAP dated November 18, 2021.

30.3. In line with the declaration of ECQ/MECQ and pursuant to AO No. 26, as amended, CAAP paid hazard pay to its officers and employees who physically reported for work during the aforementioned dates. For CY 2021, CAAP-HO paid hazard pay to its officers and employees totaling P6.917 million.

30.4. On a test basis, audit of disbursement vouchers relative to the payment of hazard pay for CY 2021 to officers and employees under departments and divisions in the Administrative and Finance Service revealed that DTR entries which serve as the basis of attendance for the claimed hazard pay totaling P222,000 were not supported with time entries in the attendance logbook as required by the aforementioned CAAP Memorandum.

30.5. As provided in AO No. 26, hazard pay is only authorized to personnel who physically report for work. Due to the lack of time entries in the attendance

logbook, entries in the DTR and Statement of Hazard Pay had no basis, hence, the physical attendance of the employees in the workplace on the specified dates could not be ascertained. Moreover, it raised questions on whether or not the employees were qualified for the payment of hazard pay.

30.6. We recommended and Management agreed to:

- a. Require the concerned officers and employees to submit their proof of attendance for the dates/periods specified to ascertain their qualification for the payment of hazard pay, otherwise cause its refund; and**
- b. Enjoin all CAAP employees concerned to strictly comply with the use of attendance logbook/biometrics machine to ensure that entries in the DTR for payroll claims have sufficient basis.**

30.7. The concerned officers and employees have submitted the documents needed to support the payment of their hazard pay for evaluation of the Audit Team. CAAP employees were also required to use the biometrics to monitor their time in and time out.

31. Poor procurement planning resulted in the overstocking of Accountable Forms in CAAP-HO, Area Centers VIII, IX and XII which is contrary to Section 7.1 of the 2016 Revised Implementing Rules and Regulation (RIRR) of Republic Act (RA) No. 9184, Section 26 of the General Provisions of the 2021 General Appropriations Act (GAA) and Section 5 of COA Circular No. 2012-003, thereby exposing CAAP to potential loss and wastage of resources.

31.1. Section 7.1 of the 2016 RIRR of RA No. 9184, otherwise known as the Government Procurement Reform Act, mandates that all procurement shall be meticulously and judiciously planned by the procuring entity.

31.2. Meanwhile, Section 26 of the General Provisions of the 2021 GAA provides that the inventory of supplies, materials and equipment spare parts to be procured shall not exceed the agency's two-month requirement.

31.3. Further, Section 5 of COA Circular No. 2012-003 dated October 29, 2012 on Updated Guidelines for the Prevention and Disallowance of Irregular, Unnecessary, Excessive, Extravagant and Unconscionable Expenditures, defines *Excessive Expenditures as unreasonable expense or expenses incurred at an immoderate quantity and exorbitant price. It also includes expenses which exceed what is usual and proper, as well as expenses which are unreasonably high and beyond just measure or amount. They also include expenses in excess of reasonable limits.*

31.4. CAAP-HO Supply Division is responsible for procuring specific Accountable Forms to be used by the HO and all its Area Centers (ACs), to wit: Official Receipt (OR), Acknowledgement Receipt (AR), Parking Fee Ticket (PFT) and Terminal Fee Ticket (TFT). These accountable forms are procured from APO Production Unit, Inc., a Government-Owned/Controlled Corporation.

- 31.5. Audit revealed that two DVs for purchase of accountable forms, DV No. 20-05-4153 dated April 7, 2020 and DV No. 01-21-536 dated January 6, 2021, did not have any supporting documents to show how they arrived at the quantities of accountable forms to be purchased. However, the two DVs contained therein, a memorandum dated March 11, 2020 and January 6, 2021, signed by the Chief/Officer-in-Charge of the Supply Division, detailing therein that the accountable forms to be procured are to be consumed within the period of four months and six months, respectively.
- 31.6. Meanwhile, DV No. 21-10-1717 dated October 27, 2021, included a Requisition and Issue Slip (RIS) from various ACs to support the quantity to be purchased. The Management also requested the Supply Officers in the ACs to provide their consumption report for the period January to August 2021 as well as the remaining balance of their accountable forms as of August 2021. However, the Audit Team observed the following:
1. The Supply Division of CAAP-HO procured far more than the quantity required and indicated in the RIS prepared by the Supply Officer of the ACs.
 2. There were airports/ACs who specifically informed that they already had a sufficient supply of accountable forms or did not prepare an RIS, nonetheless, the Supply Division of CAAP-HO included them in the PR.
 3. Summary of consumption report of accountable forms attached to the DV which showed that, for the period January to August 2021, ACs were only able to issue 25,142 sets of ORs, 205 sets of ARs and 254,709 sets of PFTs. Based on the rate of consumption, along with the remaining balance of accountable forms in the ACs as of August, 2021, the ORs would take 5 years and 2 months to consume, the ARs, for a staggering 270 years, and the PFTs for 5 years and 2 months. This excluded the October 2021 purchase of accountable forms amounting to P2.362 million which was delivered to CAAP in February 2022.
- 31.7. Our examination disclosed overstocking of accountable forms in CAAP-HO and Area Centers VIII, IX and XII. Some of the accountable forms, based on the average yearly consumption rates computed by the Audit Team, would take more than 5 years to consume, which is the validity period of an accountable form. Noteworthy is that the length of time needed to consume these accountable forms far surpass the computation of the Supply Division that these forms will be used within four to six months.
- 31.8. The above-cited transactions evidently show that CAAP did not meticulously and judiciously plan its purchases of accountable forms as required under the 2016 RIRR of RA No. 9184 which ultimately resulted in the overstocking of accountable forms.
- 31.9. The Audit Team noted three particular causes which contributed to the occurrence of the issue:

1. *The lack of an established reorder point.* Reorder points are essential in supplies management as they determine the specific level at which stocks need to be replenished. It takes into consideration the lead time of the supplier, the stocks remaining and the average utilization of a particular supply. Inquiry with the Supply Division in CAAP-HO confirmed that they indeed did not have an established reorder point.
 2. *The seemingly lack of coordination between CAAP-HO and ACs compounded the issues.* In AC IX, they submitted a request for additional PFTs, however, they received ORs and ARs instead. In the same light, AC XII made no request for accountable forms, yet CAAP-HO issued additional accountable forms to them. Likewise, CAAP-HO issued 2,500 sets of PFTs of a denomination which are seldom used in AC XII. The lack of coordination is evident as well in CAAP-HO as already discussed in Paragraph No. 31.6 (2).
 3. *Poor control in monitoring remaining accountable forms.* In AC VIII, stock cards and supplies ledger cards were not timely updated. It was also noted that both documents were being updated by the same person, which lacked the necessary check and balance. In AC IX, no stock cards were being maintained.
- 31.10. While we understood that ORs and ARs are valid for five years from the date of Bureau of Internal Revenue's Authority to Print (ATP), this does not mean that Management should purchase accountable forms to cover the use of CAAP for the next five years. Doing so not only burdened CAAP in the safekeeping of a very crucial supply such as accountable forms, some of which have money value, but also exposed CAAP to possible loss and wastage of resources due to change in existing laws, rules and regulations as in the case when CAAP became a VAT-registered entity pursuant to Republic Act (RA) No. 10963, otherwise known as Tax Reform for Acceleration and Inclusion (TRAIN) or when terminal fees were integrated with domestic airline tickets, making non-VAT receipts and terminal fee tickets for domestic travel obsolete.

31.11. We recommended that Management:

- a. **Provide the Audit Team an explanation/justification on the overstocking and excessive purchase of accountable forms and prepare a detailed plan on how CAAP will ensure that the existing stocks of accountable forms will not result to loss or wastage;**
- b. **Direct the Supply Division of CAAP-HO to coordinate with all Supply Officers of Area Centers and formulate reorder points for each accountable form and to establish a clear process on when to purchase accountable forms to ensure that no overstocking will take place in CAAP-HO as well as in the Area Centers; and**
- c. **In Area Centers VIII and IX, ensure that inventory controls like segregation of function and maintenance of stock cards for proper monitoring of accountable forms will be in place in accordance with rules and regulations.**

- 31.12. AC IX committed to comply with the recommendation. Similarly, CAAP-HO committed to establish reorder points as embodied in the Audit Team's recommendation. They likewise informed that they will coordinate with the ACs to discuss how they can avoid wastage of accountable forms. Moreover, Management commented the following:
1. The basis for the April 2020 purchase of accountable forms was the request from Area Centers thru Viber, letter and email communication attached to the letter reply to AOM. Prior to the purchase, they raised that the Accounting Division coordinated with the Supply Division to initiate the procurement process of new Accountable Forms. It was agreed that Area Centers Accountants were given the task to assess their inventory requirement and ascertain their rate of consumption.
 2. They based their purchase of ORs on the average rate of consumption for the period CY 2018 to 2019, which was at 1,754 booklets annually. Hence, the ORs would have been all issued by CY 2023, if not for the significant decrease of issuances of ORs due to the COVID-19 Pandemic.
 3. APO Production Unit Inc. required a minimum of fifty (50) booklets per order of accountable forms.
 4. For AC VIII, they raised that they only requested 45 booklets of ORs and 13 booklets of ARs from CAAP-HO. However, they received 300 booklets of ORs and 150 booklets of ARs from CAAP-HO, a lot more than what they requisitioned.
 5. For AC XII, they commented that they did not request any ARs from CAAP-HO when they received the accountable forms.
- 31.13. As a Rejoinder, the Audit Team evaluated the additional documents submitted by Management and we believed that the screenshots of communications thru Viber between officers and/or employees allegedly on the correspondence between CAAP-HO and its Area Centers lacked the necessary details for the Audit Team to properly validate its applicability and relevance to the questioned transactions. Some of the screenshots did not have any date, nor did it have anything that would indicate who was speaking and as to what capacity he/she was communicating.
- 31.14. The Audit Team believed that it was erroneous for the Supply Division of CAAP-HO to heavily rely on the Accountants' estimates in determining the quantity of accountable forms to procure at a given time. The Accountants did not have direct information as to the actual number of accountable forms left in stock in the airport/area center. Regardless, the Audit Team would like to emphasize that the proper channel to communicate the requirement of an airport/area center for accountable forms would have been a duly accomplished Requisition and Issue Slip (RIS) signed by the head/authorized representative of the requisitioning division/office or the very least, an equivalent form or letter to such effect.

- 31.15. The Audit Team would like to also emphasize that the procurement for most of these accountable forms were made at the time the effects of the Pandemic were already visible and evident, hence it would have been more prudent for Management to only procure a safe quantity of accountable forms at the moment. Even if we assumed that CAAP-HO did indeed consume 1,754 booklets annually, that does not justify why, in CY 2020, CAAP-HO procured 4,275 booklets of ORs for its use, which is more than twice its yearly consumption. The quantity procured then was far more than what was required under the GAA. Also, if the Supply Division was able to compute the average yearly consumption of CAAP-HO at 1,754 booklets, what is then the basis of the Supply Division, in April 2020 purchase, when it estimated that the accountable forms will be consumed within a period of four months.
- 31.16. As to the Acknowledgement Receipts (AR), we acknowledged that APO Production Unit, Inc. indeed imposed a minimum order of 50 booklets. However, this does not justify why CAAP-HO, as well as several other airports/area centers, were given more than 50 booklets of AR. Audit showed very minimal usage of AR. At the current rate of consumption, CAAP would not even be able to consume the minimum order of 50 booklets within the 5-year validity period of the accountable forms.
- 31.17. The Audit Team appreciated Management's commitment to formulate reorder points and look forward to the resolution of the issue.
- 31.18. Moreover, during the exit conference, the Chief of Administrative and Finance Service commented that the Inventory Committee is now doing the inventory count in every Area Centers and would have a discussion with all the ACs concerned how they can avoid wastage of accountable forms. Whereas, Management is wanting to come up with CAAP policy and will put various comments from Area Centers.
- 32. Delayed approval of Contracts of Lease for Concession and operation of Concessionaires under expired contracts in Area Centers III, XI and XII, which indicate business continuity without legal basis and weak internal control exposed government properties to risk of losses and damages.**
- 32.1. CAAP granted business concessions within the airport's premises. As provided in the CAAP Concession Manual, evaluation and processing of the concession application were done in the Business Development Division (BDD), CAAP Head Office (CAAP-HO). The BDD coordinates with the Area Center Manager and Airport Manager for comments and recommendations on the applications. The Director General (DG) executes the final approval of the Contracts for Lease for Concession, whether it is a new application or renewal.
- 32.2. Section 3.1.1 of COA Circular No. 2009-001 also states that:
- "Within five (5) working days from the execution of a contract by the government or any of its subdivisions, agencies or instrumentalities, including government-owned and controlled corporations and their subsidiaries, a copy of said contract and each of all the documents*

forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned. In case of agencies audited on an engagement basis, submission of a copy of the contract and its supporting documents shall be to the Auditor of the mother agency or parent company, as the case may be.

- 32.3. For CY 2021, total number of lease contracts for AC XI and XII transmitted to BDD were as follows:

Table 30. Submitted and Unsubmitted Contracts

Location	No. of Contracts Transmitted to BDD	No. of Approved Contracts Returned
AC XI	103	77
AC XII	102	0
	205	77

- 32.4. It can be gleaned from Table 30 that only 38 per cent or 77 concessionaires from ACs XI and XII were with approved contracts as of this date. In AC XII, Concession Unit claimed that they prepared and submitted on time the 102 Contract of Lease for Concession for CY 2021 to CAAP-HO, however, as of this writing, no approved contract had been returned to them.
- 32.5. Meanwhile, in AC III, audit disclosed that Management consistently failed to furnish the Audit Team with copies of the Contract Agreements entered into with concessionaires/clients in contravention with COA Circular No. 2009-001. As a result, respective Audit Teams of ACs III, XI and XII were not able to conduct timely review of the contract agreement, and were prevented from having sound evaluation not only on the reasonableness of the contract amount but also the determination whether the terms and conditions of the contract were advantageous to CAAP. Moreover, the continued use of the facilities without a new/renewal of lease contract contradicted sound internal control in protecting the interest of the airport.
- 32.6. In addition, the Audit Team in AC XI mentioned that Management may consider to delegate the approval of contract agreements to the Area Center Management depending on the nature of lease. Maintaining a centralized approval and renewal of all contracts in CAAP-HO may not be “facilitative” as it caters 62 satellite airports nationwide, rendering it difficult for the DG to act on the contracts at the earliest possible time.
- 32.7. We recommended that Management:**
- a. In Area Centers III, XI, and XII to follow up with CAAP-HO - Business Development Division on the status of approval of the renewal of concession contract and subsequently, submit to the Office of the Auditor for evaluation; and**

b. In Area Center XI to coordinate with CAAP-HO top management to revisit the Manual on Approval and to consider delegation of authority to the area level on the approval of certain contracts.

- 32.8. The Management in AC XI forwarded the Audit Observation Memorandum (AOM) to the Office of the Director General for their consideration.
- 32.9. The Management in AC XI and XII also committed to follow up on the status of the approval of the renewal of the concessionaire's contract with CAAP-HO.
- 32.10. The Management in AC III commented that in most cases, it took months before the approved contracts were forwarded to them. Nonetheless, they assured that the Audit Team should be furnished with copies of the contracts as soon as they are received from CAAP-HO.

33. The grant and liquidation of cash advances which were not in accordance with Section 89 of Presidential Decree No. 1445 and COA Circular No. 97-002 dated February 10, 1997, resulted in the accumulation of unliquidated cash advances as of December 31, 2021 and the misstatement of the Advances to SDO, Advances to Officers and Employees and the related expense accounts and to the risk of possible loss or misuse of government funds.

- 33.1. Section 89 of PD No. 1445 and COA Circular No. 97-002 dated February 10, 1997 which provides the rules and regulations on the granting, utilization and liquidation of cash advances, state that cash advances shall be reported on and liquidated as soon as the purpose for which it was given has been served. Likewise, it states that no additional cash advance shall be allowed unless previous cash advances are settled.
- 33.2. Further, the aforementioned COA Circular prescribes that cash advances for travel shall be liquidated within thirty/sixty days after return from local/foreign travel. It likewise provides that cash advances which are no longer needed must be returned or refunded immediately, and that except for petty cash fund, all cash advances shall be fully liquidated at the end of each year.
- 33.3. The following are the deficiencies noted in the audit of cash advances:
 - a. ***Cash advances remained unliquidated beyond the prescribed period.***

Table 31. Summary of Unliquidated Cash Advances

Office	Within the prescribed period	Beyond the prescribed period
CAAP-Head Office (HO)	P 147,600	P 3,086,580
Area Center (AC) III	154,500	64,432
AC IX		716,119
	P 302,100	P 3,867,131

- 33.4. Unliquidated cash advances beyond the prescribed period resulted in the misstatement of Advances to SDO, Advances to Officers and Employees and the related expense accounts.
- 33.5. Meanwhile, the Audit Team observed that out of the P0.716 million unliquidated cash advances of AC IX, P158,977 pertain to advances of officers and employees who were no longer connected with CAAP. Verification disclosed that these employees were cleared of money accountability by Management when they separated from AC IX, without enforcing the settlement of their advances.
- b. Additional cash advances in CAAP-HO and Area Center IX were granted to SDOs despite existing cash advance/s that are yet to be liquidated.**
- 33.6. Accountable Officers in CAAP-HO and AC IX were granted additional cash advances even when previous CAs were not yet liquidated and some of which remained outstanding for more than a year particularly on AC IX.
- 33.7. In the case of CAAP-HO, four cash advances were granted to one AO totaling P1.862 million all of which were to be undertaken within the same month. CAAP could have considered granting cash advances to different SDOs to avoid non-compliance with existing laws, rules and regulations.
- c. Existing rules and regulations, as well as policies of CAAP-HO on the recovery of long-outstanding cash advances were not strictly implemented.**
- 33.8. CAAP-HO had formulated various policies to enforce collection of long-outstanding cash advances among its personnel, to wit:
1. Authority Order No. 266-17 dated November 9, 2017 wherein the Accounting Division would withhold 25 per cent of the year-end bonus of the AOs who have past due cash advances, as partial payment, and the remaining balance shall be deducted from subsequent salaries but only up to a maximum of 10 per cent of the net salary per month or such amount which will not contravene the allowable take-home pay under General Appropriations Act; and
 2. Memorandum dated March 2, 2021 of the Deputy Director General for Administration, mandating that all past due accounts/ unliquidated cash advances of personnel shall be deducted from their respective salaries starting April 2021.
- 33.9. The Audit Team observed that these policies were not strictly implemented or would seem insufficient to settle all the unliquidated cash advances, especially those which have remained unliquidated for several years.
- 33.10. One AO with a cash advance for a foreign travel which remained unliquidated since April 2013, was subjected to the above-mentioned policies but would take additional 15 months to fully liquidate his cash advance with the balance of P63,100.32 as of December 31, 2021.

- 33.11. It is to be emphasized that Article 217 of the Revised Penal Code, as reiterated under CSC Memorandum No. 23, s. 2019, re: Revised Guidelines on the Settlement of Cash Advance and the Penalty to be Imposed for Failure of an Accountable Officer to Liquidate Cash Advance Within the Prescribed Period, states that failure of the public officer to have duly forthcoming any public funds or property with which he is chargeable, upon demand by any duly authorized officer, shall be prima facie evidence that he has put such missing funds or property to personal use.
- 33.12. It is also worthy to mention that Section 5 of the aforementioned CSC Memorandum enumerated the administrative liability, which is either Simple or Gross Neglect of Duty as well as the corresponding penalty ranging from suspension of one month and one day, or three months, or dismissal from service which should be imposed on the erring personnel depending on the aggravating circumstances present and mitigating circumstances from which that aggravating circumstances may be offset.
- 33.13. **We recommended and the Management agreed to:**
1. **Strictly adhere to the provisions of COA Circular No. 97-002 in the grant and utilization of cash advances:**
 - a. **Demand immediate liquidation of cash advances of AOs within the prescribed period and refund the excess amount, if any;**
 - b. **Refrain from granting additional cash advances to AOs with unliquidated cash advances; and consider designating additional Special Disbursing Officers in accordance with existing laws, rules and regulations; and**
 - c. **Review the effectiveness of the existing policies of CAAP on the recovery of long-outstanding cash advances taking into consideration the provisions under COA Circular No. 96-004 and CSC Memorandum No. 23, s. 2019; and ensure its strict implementation.**
 2. **Require Area Center IX to:**
 - d. **Exert all effort to locate the whereabouts of the accountable officers with outstanding cash advances who are no longer with CAAP, and exhaust all available options toward the settlement of their accountabilities, and to request for write-off of accountabilities for deceased accountable officers and those with long outstanding accounts.**
 - e. **Send final written/demand letters duly signed by the Head of CAAP, to erring accountable officers to immediately liquidate their outstanding cash advances, or file administrative charges, if warranted; and**

- f. **Revise the existing process to include a formal and documented process on the grant and liquidation of cash advances in consonance with existing laws, rules and regulations.**

33.14. AC IX Management commented that a committee will be created to conduct an assessment and address the issue on the unliquidated cash advances.

34. CAAP–HO Management failed to take necessary action to recover the long-outstanding cash advances granted to the Office of the Government Corporate Counsel (OGCC) lawyers totaling P290,665.

34.1. Section 6 of the Executive Order (EO) No. 878 dated March 4, 1983 provides that when the exigency of the service so require, any member of the legal staff of the OGCC may be assigned or designated in a concurrent capacity to act as corporate officer of the government - owned or controlled corporations being serviced by OGCC, provided that the GCC approves the assignment or designation. Whenever any member of the legal staff of OGCC is assigned/designated to perform additional or special tasks in any of the client corporations, he is allowed to receive such additional compensation and privileges as may be granted them by the government corporation concerned.

34.2. Audit noted that multiple cash advances for local travel were also granted by CAAP-HO to several OGCC lawyers in CY 2019 for travel expenses they would incur to represent CAAP in various legal cases within the country. Examination of the Advances to Officers and Employees account disclosed an aggregate amount of P290,665 unliquidated balance of OGCC lawyers as of December 31, 2021.

34.3. Inquiry with the Accounting Division revealed that in CY 2020 some of the OGCC lawyers submitted Liquidation Reports (LRs). However, the Accounting Division returned the LRs due to insufficiency of supporting documents. Since then, no action was taken to liquidate nor collect the outstanding balances. The non-liquidation of these advances cast doubt on whether the purpose of the travel advances were actually achieved.

34.4. We recommended and Management agreed to make representation with the Office of the Government Corporate Council (OGCC) relative to the unliquidated cash advances of their lawyers and issue demand letters to the OGCC lawyers to liquidate/recover these advances in the earliest possible time.

- 35. Non-compliance with the prescribed timeline for the conduct of procurement activities resulted in delayed implementation of projects which deprived the targeted beneficiaries of the benefits that can be derived thereof.**
- 35.1. Section 38.1 of the 2016 RIRR of RA No. 9184 provides that the procurement process from the opening of bids up to the award of contract shall not exceed three months, or a shorter period to be determined by the Procuring Entity concerned.
- 35.2. Also, Annex "C" of the RIRR prescribed the maximum allowable period in conducting procurement activities for infrastructure projects: 141 calendar days (CDs) for projects with Approved Budget for the Contract (ABC) worth P50 million and below and 156 CDs for projects above P50 million.
- 35.3. Audit disclosed that the procurement activities for the seven sampled DOTr - downloaded projects went beyond the maximum allowable period, from 43-249 calendar days. Further verification disclosed that the delays were incurred mostly during the conduct of post-qualification, contract preparation and in the issuance of the Notice to Proceed.
- 35.4. The delayed procurement process consequently resulted in the delayed implementation of the projects which deprived the targeted beneficiaries of its benefits that can be derived therefrom or the prompt use thereof, and loss of income opportunity for CAAP and/or the government.
- 35.5. We recommended and Management agreed to direct the Project Management Division/Procurement Division/Bids and Awards Committee and/or other concerned offices to:**
- a. **Explain the delays in the procurement activities; and;**
- b. **Effectively monitor the status of the projects, fast track its implementation/ completion, and strictly observe the timelines of the procurement activities provided in Annex C of the RIRR.**
- 36. CAAP-HO Management was not able to submit copies of the perfected contract and its supporting documents within five working days from its execution as prescribed under COA Circular No. 2009-001, thus, precluded the Audit Team from conducting timely review and evaluation.**
- 36.1. Paragraph 3.1.1 of COA Circular No. 2009-001 re: *Restatement with amendment of COA Circular No. 87-278 and COA Memorandum No. 2005-027 re: Submission of Copy of Government Contracts, Purchase Orders and their Supporting Documents to the Commission on Audit* requires that within five working days from the execution of a contract, a copy of said contract and each of all the documents forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned. Paragraph 3.1.2 thereof enumerated the copies of documents required to be submitted to the Auditor.

- 36.2. In CY 2021, the CAAP-HO Audit Team received 120 contract agreements together with the pertinent documents from the Procurement Division (PD) and Aerodrome Development & Management Service (ADMS). We noted that 89 out of the 120 contracts or 74 per cent were submitted several days or even months beyond the prescribed period.
- 36.3. In addition, the Audit Team also noted that two sets of contract documents were submitted for two infrastructure projects: one set was submitted by PD and the other set by ADMS. Both submissions were with noted delays of 13-153 calendar days.
- 36.4. Comparison of the documents received showed that the documents submitted by PD did not include the plans and drawings and other documents that are considered part of the contract agreement and necessary in the auditorial and technical evaluation of the contract.
- 36.5. To be able to meet the prescribed timeline, PD submitted the contract documents even though lacking of basic supporting documents which were either in the custody of the ADMS, being the implementing office, or not yet submitted by the contractor. ADMS submitted the contract documents to the Audit Team only upon receipt of the complete set of documents from the winning bidder.
- 36.6. This practice resulted in the double submission of contracts and its attachments, which entailed unnecessary manpower, time, and cost in reproducing another set of documents.
- 36.7. We recommended and Management agreed to direct the Procurement Division to:**
 - a. Submit the authenticated copy of the contracts, including variation orders, with complete supporting documents within five days from its execution, as required under COA Circular No. 2009-001;**
 - b. Create a database for the effective monitoring of ongoing and completed procurement activities to facilitate the prompt submission of contracts and its supporting documents to the Audit Team; and**
 - c. Closely coordinate with the Aerodrome Development and Management Service and the winning bidders to ensure prompt submission of complete documents to the Audit Team.**
- 37. Non-compliance with the provisions of DOLE Department Order No. 13, series of 1998, on the Cost of Construction Safety and Health Program may adversely affect the contractor's actions to ensure the safety and welfare of construction workers.**
 - 37.1. The Department of Labor and Employment (DOLE) issued Department Order No. 13, series of 1998, on the *Guidelines Governing Occupational Safety and Health in the Construction Industry* wherein Section 17 thereof re: Cost of

Construction Safety and Health Program stated that the total cost of implementing a Construction Safety and Health Program shall be a mandatory integral part of the project's construction cost as a separate pay item.

- 37.2. Review of the Bill of Quantities and Detailed Cost Estimates of various infrastructure projects of CAAP-HO disclosed that there was no provision for a separate pay item for the cost of the implementation of the Construction Safety and Health Program (CSHP) for each infrastructure project.
 - 37.3. Inquiry with the ADMS disclosed that it has been a practice of CAAP not to include CSHP as a separate pay item since they considered the same as part of the Overhead, Contingencies and Miscellaneous (OCM) costs. Additionally, they explicitly provided under the General Provisions of the Scope of Work that the contractor shall be responsible in providing safety and security fences and personal protective equipment (PPE) for staff and workers.
 - 37.4. Although the responsibility to ensure the safety and health of the personnel involved in the construction rests on the contractor, the non-inclusion of the provision for the cost of the implementation of CSHP may adversely affect the contractor's implementation of activities that would ensure the safety and welfare of the construction workers due to the insufficiency of allotted funds in the project cost for the said program.
 - 37.5. **Henceforth, we recommended and Management agreed to strictly adhere to the provisions of DOLE DO No. 13, series of 1998, by providing as a separate pay item in the Bill of Quantities/Detailed Estimates for the cost of the implementation of CSHP for each construction project.**
- 38. Three suspended infrastructure projects with awarded contracts totaling P353.252 million have Right-of-Way issues, which indicated lapses in planning, resulting in delayed implementation of the projects or cancellation that would deprive the public of the benefits thereof.**
- 38.1. Section 2 of the RIRR of RA No. 9184 provides that the procuring entity (PE) shall complete all the appropriate preparatory activities such as detailed engineering designs, regulatory clearances and right of way acquisitions for civil works projects prior to the approval of the indicative Annual Procurement Plan.
 - 38.2. Moreover, Section 17.6 of the same RIRR re: Detailed Engineering for the Procurement of Infrastructure Projects states that in case of projects with pending acquisition of right-of-way site or location, the procurement process may commence, but no award of contract shall be made until an authority or permit to enter is issued by the property owner; or a notarized deed of sale or deed of donation was executed in favor of the government; or a writ of possession was issued by a court of competent jurisdiction, as the case may be.
 - 38.3. In addition, Section IX of the MOA for the implementation of DOTr -downloaded projects provides that the DOTr reserves the right to terminate or rescind this

Agreement upon breach of any provision hereof or after it had been determined that CAAP's accomplishment/performance was unsatisfactory.

- 38.4. Review of the status report submitted by the ADMS as of December 31, 2021 disclosed that three projects, two of which were DOTr downloaded projects, have been suspended due to right-of-way issues.
 - 38.5. The suspension of projects could have been prevented had CAAP, thru the ADMS, employed proper planning prior to the procurement. The poor implementation of the projects may also lead to the cancellation by the DOTR of the other projects in view of Section IX of the MOA and two-year period limitations imposed in the GAA on the release/use of appropriations, and therefore will totally deprive the public of the enjoyment/benefit of the proposed projects.
 - 38.6. **We recommended and Management agreed to strictly adhere to the provisions of the 2016 RIRR of RA No. 9184 and direct the:**
 - a. **Project Management Division/Aerodrome Development and Management Service to immediately act on the suspended projects, to cause/facilitate its early resumption or resolution; and**
 - b. **Project Management Division/Procurement Division to conduct a pre-procurement planning judiciously and strictly adhere to Sections 2, 17.6 and 20 of the 2016 RIRR of RA No. 9184.**
39. **There was no assurance that transparency, competitiveness, efficiency, and economy were observed in the procurement transactions of CAAP due to non-compliance to various provisions in the 2016 Revised IRR of RA No. 9184 in CAAP-HO, Area Centers I, II, V, VIII, XI and XII.**
- 39.1. Republic Act (RA) No. 9184 and its 2016 RIRR has been created for the purpose of prescribing the necessary rules and regulations for the modernization, standardization, and regulation of the procurement activities of the Government of the Philippines (GoP). Its provisions are in consonance with the commitment of the GoP to promote good governance thru the principles of transparency, accountability, equity, efficiency, and economy in its procurement process.
 - 39.2. Review of documents relative to procurement disclosed various non-compliance to some of the provisions of the RIRR of RA No. 9184 during the year.

Table 32. Results of Evaluation of Procurement Contracts

Office	Nature of Transactions	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
CAAP-HO	Six undated Purchase Requisitions for two types of Uninterruptible Power Supply (UPS) batteries procured thru Small Value Procurement (SVP)	<p>Section 54 of the RIRR of RA No. 9184 defined Splitting and explicitly stated a prohibition on splitting of government contracts.</p> <p>Moreover, Annex "H" of the same RIRR provided the definition and the threshold amount of P1 million for GOCCs as a condition for engaging into SVP.</p>	<p>Review of the six undated purchase requests (PRs) prepared by ANOD and other pertinent documents disclosed that the estimated total cost of the batteries, if purchased altogether, would have been P1.605 million for 60 KVA UPS and P1.301 million for 20 KVA UPS. Hence, should have been procured through public bidding</p>	1,676,373
AC I	Infrastructure project with incomplete Program of Work (POW)	<p>Section 17.6 of RA No. 9184.</p> <p>"Detailed Engineering for the Procurement of Infrastructure Projects - No bidding and award of contract for infrastructure projects shall be made unless the detailed engineering investigations, surveys, and designs, for the projects have been sufficiently carried out and duly approved in accordance with the standards and specifications prescribed by the Head of the Procuring Entity concerned or his duly authorized representative, pursuant to the</p>	<p>Pressurized Water Pump and Electrical Post for power connection of the newly constructed Administration Building were not provided in the POW hence, the water supply system could not function upon project completion. In the same manner, an electrical post needed for power connection was not provided in the POW, thus, the absence of power supply for the facility.</p>	13,808,383

Office	Nature of Transactions	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
		recommendation of the end-user or implementing unit and in accordance with the provisions if Annex "A" of this IRR. Xxx"		
AC II	Procurements of various supplies, other maintenance and operating expenses made thru negotiated mode.	Section 10 of RA No. 9184 states that: "All procurement shall be done through competitive bidding except as provided in Rule XVI of this Implementing Rules and Regulations (IRR) on Alternative Methods of Procurement."	Various purchases were made thru reimbursement which is identical to negotiated mode of procurement. The lowest price most advantageous to the government was not obtained due to the absence of competition and transparency from at least three bonafide suppliers.	145,915
AC V	Various repairs and maintenance projects with delayed posting of performance security	Section 39, Rule XV1 of the Revised IRR of RA No. 9184 provides the guidelines in the posting of Performance Security as follows: "To guarantee the faithful performance by the winning bidder of its obligations under the contract in accordance with the Bidding Documents, it shall post a performance security prior to the signing of the contract (underscoring supplied)."	The required performance security on five repairs and maintenance projects were posted by the winning bidders several days after the contracts were signed.	818,418
AC V	Two infrastructure projects with questionable	Annex "E" of the Revised Implementing Rules and Regulations of	No attached notice submitted by the contractor. Per	9,152,446

Office	Nature of Transactions	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
	Variation Orders (VO)	<p>RA No. 9184 provides that:</p> <p>“Variation Orders may be issued by the procuring entity to cover any increase/decrease in quantities, including the introduction of new work items that are not included in the original contract or reclassification of work items xxx”</p> <p>Further, the same Rule states that if the Procuring Entity’s representative/Project Engineer finds that a Change Order or Extra Work Order is justified, he/she must prepare the proposed order, accompanied with the following:</p> <ol style="list-style-type: none"> a. Notices submitted by the contractor; b. The plans to effect the adjustments; c. The contractor’s computations as to the quantities of the additional works involved per item indicating the specific stations where such works are needed, the date of his inspections and investigations thereon, and the log book thereof; and 	approved undated Variation Order, the contractor conformed only that it had given careful consideration to the changes proposed by CAAP and that it would provide all the equipment, furnish all the materials and perform all services specified necessary to the work.	

Office	Nature of Transactions	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
		A detailed estimate of the unit cost of such items of work, together with the justifications for the need of such Change Order or Extra Work Order.		
AC VIII	Procurements through Pakyaw Contract System with questionable contracts	<p>Appendix 1 of the RIRR of RA No. 9184 provides the following:</p> <p>Section 2.6 - "Pakyaw" refers to a system of hiring a labor group for the performance of a specific work and/or service incidental to the implementation of infrastructure project by administration whereby tools and materials are furnished by the implementing agency. For the specific work/service output, a lump-sum payment is made either through the group leader or divided among the Pakyaw workers and disbursed using a payroll system.</p> <p>Section 4.2 – The formation of Pakyaw Groups should actively involve the Barangay leaders and the community. A Project Facilitator (PF) shall be appointed by the implementing agency to assist in the organization of the Pakyaw Groups and in the preparation of</p>	<p>a. The contract was between CAAP and a private individual who did not represent any labor group within the vicinity of the project;</p> <p>b. The person who entered into contract was not designated as Project Facilitator or a Group Leader; and</p> <p>The tools and materials were included in the contract instead of the agency providing it.</p>	1,042,900

Office	Nature of Transactions	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
		<p>the Pakyaw Contracts. The PF shall, for purposes of informing the community of the project and of organizing Pakyaw groups, shall convene community meetings, with the assistance of the Barangay Chairperson/s. The PF shall cause the registration of all unemployed or underemployed members of the community who are interested to join Pakyaw groups being formed for the project.</p> <p>Section 4.6 – A Group Leader shall be elected from among the members of the group who shall be the signatory to the Pakyaw Contract and any other documents pertaining to the work on behalf of the Pakyaw Group. He may be replaced at any time by the group through an election for that purpose, after due notice to the Project Facilitator and the Barangay Chairperson. Any such replacement shall not invalidate any previous Pakyaw Contract.</p>		
AC XI	Procurement of goods without warranty security	<p>Section 62.1 states that:</p> <p>“For the procurement of Goods, in order to assure that manufacturing</p>	The procurement was not covered by the required warranty security as no special bank guarantee was submitted	2,560,000

Office	Nature of Transactions	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
		defects shall be corrected by the supplier, a warranty security shall be required from the contract awardee for a minimum period of three months, in the case of Expendable Supplies, or a minimum period of one year, in the case of Non-expendable Supplies, after acceptance by the Procuring Entity of the delivered supplies. xx	by the supplier nor deduction was made upon payment in an amount equivalent to at least one per cent of the contract price.	
AC XII	Various goods without warranty nor performance security	xx. The Obligation for the warranty shall be covered by either retention money in an amount equivalent to at least one per cent of every progress payment, or a special bank guarantee equivalent to at least one per cent of the total contract price. xx”	Verification of the payment for various goods procured showed that no deduction was made for the required warranty security in an amount equivalent to one per cent of the purchase price nor was a special bank guarantee secured by the suppliers to cover the warranty security. Also, in some of these procurements, a performance security in the form of surety bond equivalent to 30 per cent of the items purchased were secured by the suppliers from an insurance	9,787,172

Office	Nature of Transactions	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
			company, which is not included as an acceptable form of warranty security in the procurement of goods, i.e., retention money and special bank guarantee.	
AC XII	Procurement of various ordinary/regular/common-use supplies and equipment with questionable mode of procurement	<p>Section 52.1 provides that:</p> <p>“Shopping is a method of procurement of Goods whereby the Procuring Entity simply requests for the submission of price quotations for readily available off-the-shelf goods or ordinary/regular equipment to be procured directly from suppliers of known qualifications. This method of procurement shall be employed in any of the following cases:</p> <p>XXX</p> <p>b. Procurement of ordinary or regular office supplies and equipment not available in the Procurement Service (PS) involving an amount not exceeding the threshold prescribed in Annex H of the IRR”</p>	Procurement of various ordinary/regular/common-use supplies and equipment were made through Small Value Procurement instead of through Shopping as the alternative mode of procurement.	7,582,429

39.3. We recommended that Management:

- a. Direct the concerned Bids and Awards Committee/Canvass Committees, procurement officers, and other concerned officials to strictly adhere to the provisions of RA No. 9184 and its 2016 RIRR in all procurement activities;**
- b. Require the Air Navigation Operations Department to explain the splitting of purchase requisitions for UPS batteries and resorting to SVP instead of procuring them through public bidding; and**
- c. Direct all the procurement actors to henceforth, strictly adhere to the provisions of the 2016 RIRR of RA No. 9184 by conducting proper planning and procurement procedures in order to avoid splitting of government purchases.**

40. CAAP does not have an approved GAD Plan and Budget and GAD Accomplishment Report for CY 2021 due to the non-conduct of GAD planning and budgeting contrary to PCW-NEDA-DBM Joint Circular No. 2012-01, casting doubt on whether the programs, activities, and/or projects of CAAP for CY 2021 are gender-responsive.

- 40.1. PCW-NEDA-DBM Joint Circular No. 2012-01 prescribes the Guidelines for the Preparation of Annual Gender and Development (GAD) Plans and Budgets and Accomplishment reports to implement the Magna Carta of Women. Section 3.2 and 3.3 of PCW-NEDA-DBM Joint Circular No. 2012-01 provides that GAD planning and budgeting shall be conducted annually and that GAD budget shall form part of the agencies' approved budget.
- 40.2. Audit noted that CAAP did not conduct any GAD planning and budgeting for CY 2021.
- 40.3. The CAAP-GAD Focal Point Secretariat confirmed this through a letter dated February 18, 2022. He reasoned that:
 1. The GAD Committee was not asked to present its budget for CY 2021, hence, no budget was allocated for GAD in the final APP for CY 2021.
 2. All the Offices and the Area Centers were not guided to include GAD projects in their budget proposals for CY 2021.
 3. No CAAP-GAD-GPB for the year 2021 was submitted to the Philippine Commission on Women (PCW).
- 40.4. Consequently, the CAAP-GAD Secretariat likewise confirmed that CAAP was not able to conduct any GAD-related activity in CAAP-Head Office and its Area Centers.
- 40.5. The non-conduct of GAD planning and budgeting casts doubt on whether the PAPs of CAAP are responsive to the gender issues within the organization.

- 40.6. We recommended and Management agreed to instruct the Chairperson, GFPS Executive Committee, to strictly observe the guidelines in the preparation of the GPB and, henceforth ensure that at least five per cent of the Corporate Operating Budget supports PAPs relative to Gender and Development.
- 40.7. Management commented that they already initiated the reorganization of CAAP GAD Focal Point System (GADFPS) and committed to institutionalize GAD in the organization.

41. Compliance with Tax Laws

- 41.1. CAAP-HO and 12 Area Centers (ACs) have substantially complied with the requirements on the withholding and remittances of taxes during CY 2021. Details are presented below:

Table 33. Taxes Withheld and Remitted

Offices	Beginning Balance, January 2021 (As Restated)	Adjustments During the Year	Taxes During CY 2021		Balance, December 31, 2021
			Tax Withheld	Tax Remitted	
Head Office	P 78,677,278	P 31,924,508	P 302,832,488	P 313,373,533	P 100,060,741
Area Centers:					
AC I	1,090,941	0	6,780,293	6,048,208	1,823,026
AC II	691,595	0	3,920,732	3,758,115	854,212
AC III	6,325,272	0	11,639,311	11,180,647	6,783,936
AC IV	868,477	75,161	7,119,587	6,014,466	2,048,759
AC V	223,828	0	10,416,370	10,386,985	253,213
AC VI	1,190,551	(115,773)	20,653,572	20,815,753	912,597
AC VII	6,444,131	(1,418,451)	17,081,858	20,076,247	2,031,291
AC VIII	1,098,635	40,512	8,392,835	8,555,145	976,837
AC IX	1,484,065	0	10,638,480	11,474,828	647,717
AC X	1,824,389	0	9,321,541	9,477,634	1,668,296
AC XI	3,394,821	(1,098)	17,466,967	17,901,756	2,958,934
AC XII	171,000	0	6,593,430	6,615,937	148,493
Total, Area Centers	24,807,705	(1,419,649)	130,024,976	132,305,721	21,107,311
Grand Total	P 103,484,983	P 30,504,859	P 432,857,464	P 445,679,254	P 121,168,052

- 41.2. An observation was noted in CAAP-HO that out of P302.832 million taxes withheld for CY 2021, only P248.482 million were remitted to the BIR within the prescribed period. Meanwhile, P45.017 million were filed and remitted to the BIR beyond the prescribed period. On the other hand, the Audit Team was not able to ascertain whether the amount of P9.333 million withheld in CY 2021 were actually filed and remitted. This was discussed in Observation No. 26 of this report.
- 41.3. The unremitted balances pertain mostly to the taxes withheld in December 2021 which were subsequently remitted in January 2022.

42. Compliance with GSIS, Pag-IBIG, and PhilHealth Premium/Loan Amortizations/Deductions and Remittances

42.1. The GSIS personal share, loans of employees, Social Insurance Fund (SIF), and Employees Compensation Insurance Fund (ECIF) premiums as government shares were substantially deducted and remitted in accordance with RA No. 8291, the GSIS Act of 1997. Likewise, Pag-IBIG/PhilHealth premiums and loan amortizations collected were remitted in compliance with RA No. 9679 (Pag-IBIG Fund Law 2009) and Title III, Rule III, Section 18 of the Implementing Rules and Regulations of RA No. 7875 (National Health Insurance Act of 2013) respectively.

Table 34. GSIS, Pag-IBIG, and PhilHealth Premiums/Loan Amortizations and Remittances

Particulars	Balances as of January 1, 2021 as restated		Premiums and Loan Amortization collected for		Balance as of December 31, 2021
		Adjustment(s)	CY2021	Remittances	
GSIS	P 11,436,689	P (23,324)	P 383,724,457	P 378,896,696	P 16,241,126
Pag-IBIG	4,711,049	1,100,331	37,556,122	38,302,816	5,064,686
PhilHealth	4,318,710	(340,505)	30,049,773	28,788,919	5,239,059
TOTAL	P 20,466,448	P 736,502	P 451,330,352	P 445,988,431	P 26,544,871

42.2. Most of the ending balances pertain to collections in December 2021 that were subsequently remitted in January 2022.

42.3. An observation has been noted in Area Center (AC) VI on the delayed remittance of GSIS premiums contrary to Section 6 of Republic Act No. 8291 or the GSIS Insurance Act of 1997 and unreconciled balances pertaining to prior years' transactions totaling P1.1 million due to inadequate monitoring and reconciliation of records of AC VI and Satellite Offices. Examination of the details and history of the AC VI's Due to GSIS account revealed that the balances were premiums withheld from salaries in December 2021 and the accumulated prior years' unreconciled balances which represent mostly of unremitted premiums withheld from salary adjustments due to promotions, salary differentials and retirement, which as of year-end, were not fully reconciled with GSIS records. This was due to some deficiencies in the updating of membership profiles of affected employees and the absence of subsidiary ledgers and subsidiary schedules.

43. Enforcement of COA Audit Suspensions, Disallowances, and Charges

43.1. The total audit suspensions, disallowances, and charges found in the audit of transactions as of December 31, 2021 is summarized in Table Nos. 35 and 36:

HEAD OFFICE

Table 35. Summary of Audit Suspensions, Disallowances, and Charges in the Head Office

Particulars	Beginning Balance as of January 1, 2021	This Period January 1 to December 31, 2021		Ending Balance as of December 31, 2021
		NS/ND/NC	NSSDC	
Notice of Suspension	P 29,929,061	P 23,997,500	P 0	P 53,926,561
Notice of Disallowance	886,096,597	1,001,500	108,091	886,990,006
Notice of Charge	30,913	0	0	30,913
TOTAL	P 916,056,571	P 24,999,000	P 108,091	P 940,947,480
% of settlement			0.01%	

AREA CENTERS

Table 36. Summary of Audit Suspensions, Disallowances, and Charges in the Area Centers

Particulars	Beginning Balance as of January 1, 2021	This period January 1 to December 31, 2021		Ending Balance as of December 31, 2021
		NS/ND/NC	NSSDC	
Notice of Suspensions				
AC V	P 1,144,134	P 0	P 0	P 1,144,134
AC VI	0	50,524	0	50,524
AC VIII	135,828	0	67,913	67,915
AC XII	14,981,449	0	2,175,368	12,806,081
TOTAL	P 16,261,411	P 50,524	P 2,243,281	P 14,068,654
% of settlement			13.75%	
Notice of Disallowances				
AC I	P 16,342,938	P 0	P 0	P 16,342,938
AC II	8,321,783	0	0	8,321,783
AC III	15,876,355	0	176,553	15,699,802
AC IV	11,676,055	0	0	11,676,055
AC V	22,315,430	0	211,561	22,103,869
AC VI	67,119,757	14,090	0	67,133,847
AC VII	41,530,411	0	0	41,530,411
AC VIII	9,356,573	0	201,985	9,154,588
AC IX	26,827,107	0	0	26,827,107
AC X	108,587,560	0	0	108,587,560
AC XI	39,036,589	0	13,800	39,022,789
AC XII	7,257,804	0	30,650	7,227,154
TOTAL	P 374,248,362	P 14,090	P 634,549	P 373,627,903
% of settlement			0.17%	

43.2. A Notice of Suspension was issued to CAAP-HO in CY 2021 for the payment for the Emergency Purchase of Personal Protective Equipment in relation with Coronavirus Disease 2019 amounting to P23.998 million.

43.3. Lastly, a Notice of Disallowance was issued to CAAP-HO for the payment for the 10,000 booklets of non-VAT Official Receipts totaling P1 million.