

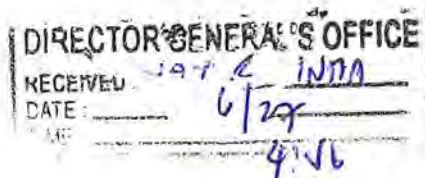


Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 4 – INDUSTRIAL AND AREA DEVELOPMENT

June 27, 2022

CAPTAIN JIM C. SYDIONGCO
Director General
Civil Aviation Authority of the Philippines
Old MIA Road, Pasay City



Dear Captain Sydiongco:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of audit of the accounts and transactions of Civil Aviation Authority of the Philippines (CAAP) for the years ended December 31, 2021 and 2020.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of CAAP for the years 2021 and 2020 because the qualitative characteristics of verifiability and faithful representation of the following accounts were not met/could not be ascertained which is not in accordance with Philippine Accounting Standards (PAS) 1 on *Presentation of Financial Statements* and the Conceptual Framework for Financial Reporting:

- a. Property and Equipment (PE) account amounting to P80.937 billion – due to the non-reconciliation of the variance amounting to P20.745 billion and P121.128 million between the balance per General Ledger (GL) vis-à-vis the balances per inventory report/property records and the Subsidiary Ledgers (SLs), respectively; erroneous valuation of Land and non-recognition of Depreciation Expenses for completed infrastructure projects still recorded in Construction in Progress accounts instead of PE, which resulted in the overstatement of PE amounting to P668.333 million and P99.762 million, respectively, understatement of Depreciation Expenses accounts by P30.140 million, and the overstatement of Government Equity and Retained Earnings (RE) accounts by P668.333 million and P69.622 million, respectively; and, the non-recognition of various properties found in station at a minimum amount of P62.308 million which resulted in the understatement of PE by an undetermined amount. While the non-adjustment of Depreciation Expenses brought about by numerous misclassifications within the account understated PE by P24.758 million,

and overstated Depreciation Expense and RE by P9.352 million and P15.406 million, respectively.

- b. Accounts Receivable (AR) and Operating Lease Receivable accounts totaling P4.616 billion – due to the non-reconciliation of the variance of P1.268 billion between the balances of the GL and SLs.
- c. Guaranty/Security Deposits Payable account balance of P179.029 million – due to the non-reconciliation of the variance of P97.441 million between the balances of GL and SLs; and erroneous classification of retention money which overstated the account and understated Due to National Government Agencies (NGAs) account, both by P70.326 million.
- d. Inventory account amounting to P135.623 million – due to the non-reconciliation of the variance amounting to P77.573 million between the balance per General Ledger (GL) vis-à-vis the balance per inventory report/property records; erroneous recording of payment for purchases and the delivery and issuances of supplies inventory for a net understatement of P22.524 million, the overstatement of various supplies expense accounts by P25.210 million, and the understatement of Due from Other Government Corporation and Other Prepayments accounts by P2.362 million and P325,085, respectively; and the continuous non-recording of fuel consumption and impairment loss for obsolete accountable forms which resulted in the overstatement of the Fuel, Oil and Lubricant Inventory and the Accountable Forms, Plates and Stickers Inventory accounts by an undetermined amount.
- e. Income and expenses accounts – due to the non-adjustment of the rental income from concessionaires, whose applications were approved to avail of the Lease/Rental Payment Holiday, recorded under the Rent/Lease Income account totaling P86.088 million contrary to PAS 10 on *Events after the Reporting Period*; due to the untimely recording of remittances of Domestic Passenger Service Charge from airline carriers amounting to P61.803 million in the Transportation System Fee; unbilled, over/under-billed and/or erroneous recording of Air Navigational Charges which resulted in the net understatement of the Income from Communication Facilities account by P15.802 million, RE by P18.257 million and the AR by P34.059 million; and various misclassification within Maintenance and Other Operating Expenses totaling P55.677 million.

For the above observations, which caused the issuance of an adverse opinion, we recommended that Management:

On the non-reconciliation of the variance amounting to P20.745 billion and P121.128 million between the balance per General Ledger (GL) vis-à-vis the balances per inventory report/property records and the Subsidiary Ledgers (SLs), respectively, direct the:

- a. 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;

- b. 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;
- c. CAAP-HO 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;
- d. CAAP-HO Accounting Division to 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;
- e. Area Centers VI, IX and XI to maintain property and accounting records for the conduct of regular reconciliation;
- f. Area Center X to follow-up with the 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
- g. 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.

On the erroneous valuation of Land which resulted in the overstatement of both PE and Government Equity amounting to P668.333 million, that direct the 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.

On the non-recognition of Depreciation Expenses for completed infrastructure projects still recorded in Construction in Progress accounts instead of PE which resulted in the overstatement of PE amounting to P99.762 million and understatement of Depreciation Expenses and Retained Earnings (RE) accounts by P30.140 million and P69.622 million, respectively, direct the:

- 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.

On the non-recognition of various properties found in station at a minimum amount of P62.308 million which resulted in the understatement of PE, direct the:

- a. Inventory/Appraisal Committee Area Centers I, VI, and VII 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 and their respective Accounting Units to immediately record the value of the Motor Vehicle in the books of accounts;
- b. Area Center IX to locate the supporting documents and coordinate with the source agency for records of the transferred properties and Accounting Unit to book up the transferred assets for a fair presentation of the accounts in the financial statements; and
- c. 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.

On the non-adjustment of Depreciation Expenses brought about by numerous misclassifications within the account which understated PE by P24.758 million, and overstated Depreciation Expense and RE by P9.352 million and P15.406 million, respectively, direct the Accounting Division in CAAP-HO 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; and
- c. Effect the necessary adjustments in the books of accounts to update the balance of the accounts.

On the non-reconciliation of the variance of P1.268 billion between the GL balances and SL of the Accounts Receivable (AR) account, direct the Chief Accountant and/or AC Accountants to:

- a. 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;

- b. Simultaneously record in the GL and SL the collection to reduce the variance of unaccounted remittances with identified airline operators;
- c. 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;
- d. 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;
- e. 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;
- f. Directly coordinate with the concerned airline operators aside from their designated ground handlers in the country; and
- g. Keep track the delivery of billing statements to the clients including those covered by the UCPB Collection Facility.

On the non-reconciliation of the variance of P97.441 million between the GL balances and SL of the Guaranty/Security Deposits Payable account and erroneous classification of retention money which overstated the account and understated Due to National Government Agencies (NGAs) account, both by P70.326 million, direct the CAAP-HO Accounting Division 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. 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;
- c. 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
- d. Henceforth, ensure that transactions are properly classified and recorded in the books of accounts.

On the non-reconciliation of the variance amounting to P77.573 million between the balance per General Ledger (GL) vis-à-vis the balance per inventory report/property records of Inventory accounts, to direct the Chief of Administrative and Finance Department and the Area Managers of ACs 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.

On the erroneous recording of payment for purchases and the delivery and issuances of supplies inventory for a net understatement of P22.524 million, the overstatement of various supplies expense accounts by P25.210 million, and the understatement of Due from Other Government Corporation and Other Prepayments accounts by P2.362 million and P325,085, respectively; and the continuous non-recording of fuel consumption and impairment loss for obsolete accountable forms which resulted in the overstatement of the Fuel, Oil and Lubricant Inventory and the Accountable Forms, Plates and Stickers Inventory accounts:

- 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;
- 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; and
- d. 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 (RSMIs), 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 RSMIs.

On the non-adjustment of the rental income from concessionaires, whose applications were approved to avail of the Lease/Rental Payment Holiday, recorded under the Rent/Lease

Income account totaling P86.088 million contrary to PAS 10 on Events after the Reporting Period, 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.

On the untimely recording of remittances of Domestic Passenger Service Charge from airline carriers amounting to P61.803 million in the Transportation System Fee, direct Area Center Management:

- a. In 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. In 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. In Area Center VIII to demand from CAAP-HO the share of Area Center VIII of DPSC and that they would be notified of it regularly;
- d. In 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. In 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. In 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 the computations of billed fees and charges as reported in the Abstract of Bills Rendered/Billing Statement to various Air Carriers.

On the unbilled, over/under-billed and/or erroneous recording of Air Navigational Charges which resulted in the net understatement of the Income from Communication Facilities account by P15.802 million, RE by P18.257 million and the AR by P34.059 million; and various misclassification within Maintenance and Other Operating Expenses totaling P55.677 million:

- a. 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;
- b. Consider the procurement of an automated system that will integrate the billing, collection, and accounting into a streamlined process;
- c. Direct the Accounting Division and Billing Unit in CAAP-HO:
 - c.1 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 - 2021;
 - c.2 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;
- d. Direct the Area Center XI Accountant to:
 - d.1 Require the concerned Accounting Units of satellite airports 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.2 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.

The other significant audit observations and recommendations which need immediate attention are as follows:

1. CAAP's acceptance of the Philippine Airlines' (PAL) final proposal to settle its outstanding obligations of P6.965 billion as of July 30, 2017, which resulted in under-collection and condonation of the 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.

We recommended Management to instruct:

- 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.
2. 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.

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

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.

4. 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.

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.

5. 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.

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.
6. 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.

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.

The other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on June 7, 2022, are presented in detail in Part II of the report.


We respectfully request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


EMMA V. MOISES
OIC-Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson - Senate Finance Committee
The Chairperson - Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library



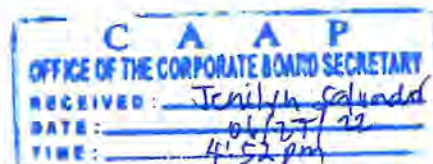
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COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 4 – INDUSTRIAL AND AREA DEVELOPMENT

June 27, 2022

THE BOARD OF DIRECTORS

Civil Aviation Authority of the Philippines
Old MIA Road, Pasay City



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On the erroneous valuation of Land which resulted in the overstatement of both PE and Government Equity amounting to P668.333 million, direct the 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.

On the non-recognition of Depreciation Expenses for completed infrastructure projects still recorded in Construction in Progress accounts instead of PE which resulted in the overstatement of PE amounting to P99.762 million and understatement of Depreciation Expenses and Retained Earnings (RE) accounts by P30.140 million and P69.622 million, respectively, direct the:

- 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.

On the non-recognition of various properties found in station at a minimum amount of P62.308 million which resulted in the understatement of PE, direct the:

- a. Inventory/Appraisal Committee Area Centers I, VI, and VII 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 and their respective Accounting Units to immediately record the value of the Motor Vehicle in the books of accounts;
- b. Area Center IX to locate the supporting documents and coordinate with the source agency for records of the transferred properties and Accounting Unit to book up the transferred assets for a fair presentation of the accounts in the financial statements; and
- c. 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.

On the non-adjustment of Depreciation Expenses brought about by numerous misclassifications within the account which understated PE by P24.758 million, and overstated Depreciation Expense and RE by P9.352 million and P15.406 million, respectively, direct the Accounting Division in CAAP-HO 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; and
- c. Effect the necessary adjustments in the books of accounts to update the balance of the accounts.

On the non-reconciliation of the variance of P1.268 billion between the GL balances and SL of the Accounts Receivable (AR) account, direct the Chief Accountant and/or AC Accountants to:

- a. 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;
- b. Simultaneously record in the GL and SL the collection to reduce the variance of unaccounted remittances with identified airline operators;

- c. 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;
- d. 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;
- e. 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;
- f. Directly coordinate with the concerned airline operators aside from their designated ground handlers in the country; and
- g. Keep track the delivery of billing statements to the clients including those covered by the UCPB Collection Facility.

On the non-reconciliation of the variance of P97.441 million between the GL balances and SL of the Guaranty/Security Deposits Payable account and erroneous classification of retention money which overstated the account and understated Due to National Government Agencies (NGAs) account, both by P70.326 million, direct the CAAP-HO Accounting Division 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. 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;
- c. 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
- d. Henceforth, ensure that transactions are properly classified and recorded in the books of accounts.

On the non-reconciliation of the variance amounting to P77.573 million between the balance per General Ledger (GL) vis-à-vis the balance per inventory report/property records of Inventory accounts, to direct the Chief of Administrative and Finance Department and the Area Managers of ACs 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.

On the erroneous recording of payment for purchases and the delivery and issuances of supplies inventory for a net understatement of P22.524 million, the overstatement of various supplies expense accounts by P25.210 million, and the understatement of Due from Other Government Corporation and Other Prepayments accounts by P2.362 million and P325,085, respectively; and the continuous non-recording of fuel consumption and impairment loss for obsolete accountable forms which resulted in the overstatement of the Fuel, Oil and Lubricant Inventory and the Accountable Forms, Plates and Stickers Inventory accounts:

- 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;
- 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; and
- d. 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 (RSMIs), 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 RSMIs.

On the non-adjustment of the rental income from concessionaires, whose applications were approved to avail of the Lease/Rental Payment Holiday, recorded under the Rent/Lease

Income account totaling P86.088 million contrary to PAS 10 on Events after the Reporting Period, 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.

On the untimely recording of remittances of Domestic Passenger Service Charge from airline carriers amounting to P61.803 million in the Transportation System Fee, direct Area Center Management:

- a. In 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. In 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. In Area Center VIII to demand from CAAP-HO the share of Area Center VIII of DPSC and that they would be notified of it regularly;
- d. In 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. In 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. In 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 the computations of billed fees and charges as reported in the Abstract of Bills Rendered/Billing Statement to various Air Carriers.

On the unbilled, over/under-billed and/or erroneous recording of Air Navigational Charges which resulted in the net understatement of the Income from Communication Facilities account by P15.802 million, RE by P18.257 million and the AR by P34.059 million; and various misclassification within Maintenance and Other Operating Expenses totaling P55.677 million:

- a. 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;
- b. Consider the procurement of an automated system that will integrate the billing, collection, and accounting into a streamlined process;
- c. Direct the Accounting Division and Billing Unit in CAAP-HO:
 - c.1 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 - 2021;
 - c.2 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;
- d. Direct the Area Center XI Accountant to:
 - d.1 Require the concerned Accounting Units of satellite airports 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.2 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.

The other significant audit observations and recommendations which need immediate attention are as follows:

1. CAAP's acceptance of the Philippine Airlines' (PAL) final proposal to settle its outstanding obligations of P6.965 billion as of July 30, 2017, which resulted in under-collection and condonation of the 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.

We recommended Management to instruct:

- 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.

2. 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.

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

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.

4. 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.

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.
- 5. 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.

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.
- 6. 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.

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.

The other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on June 7, 2022, are presented in detail in Part II of the report.


In a letter of even date, we requested the CAAP's Director General to take appropriate actions on the recommendations contained in the report and to inform this office of the actions taken thereon within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


EMMA V. MOISES
OIC-Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson - Senate Finance Committee
The Chairperson - Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library