

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. **The existence, completeness, and valuation of the Property and Equipment (PE) account balance of P55.498 billion could not be ascertained due to errors, non-observance of standard operating procedures, and lapses in internal control.**
 - 1.1. Philippine Accounting Standards (PAS) 1 *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.”
 - 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, achieve the following general objectives:
 - 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 continuously adapts to an organization’s changes. Management and personnel at all levels must be involved in this process to address risks and provide reasonable assurance of achieving the entity’s mission and general objectives.
 - 1.4. Analysis of the PE transactions revealed the following deficiencies:
 - a) ***Variance of P6.670 billion between the balances per books of accounts and the Report on the Physical Count of Property, Plant, and Equipment (RPCPPE)***
 - 1.5. This is a reiteration of the audit observation embodied in CY 2021 AAR.
 - 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 the physical count of PPE that the agency owns.

- 1.8. Comparison between the balances per books of accounts and RPCPPE of CAAP-Head Office (HO), Area Centers (ACs) II, III, V, VI, VIII, and IX showed a variance of P6.670 billion as shown in Table 1:

Table 1. Variance Between Balance per Books of Accounts and RPCPPE

Location	Per books of accounts	Per RPCPPE	Variance (Absolute Value)
CAAP-HO	P 9,570,509,893	P 4,325,440,588	P 5,245,069,305
AC II - Basco	648,077,020	121,500,394	526,576,626
AC III	1,352,159,036	1,348,056,367	4,102,669
AC V	4,666,937,448	3,853,494,584	813,442,864
AC VI	16,332,171,246	16,371,418,426	39,247,180
AC VIII	3,982,753,452	3,947,794,262	34,959,190
AC IX	6,219,476,470	6,226,450,658	6,974,188
			P 6,670,372,022

- 1.9. Verification of documents disclosed the following:
1. CAAP-HO recorded the Communications, Navigation, and Surveillance/Air Traffic Management (CNS/ATM) System Development Project under Airport Systems, Buildings, Land, and Motor Vehicles; however, only the RPCPPE for Buildings, Land, and Motor Vehicles was provided;
 2. No RPCPPE for Other Land Improvements and Airport Systems of AC II;
 3. Various properties recorded in the books of accounts of CAAP-HO and AC V were not reported in the RPCPPE;
 4. CAAP-HO and ACs III, V, VI, and IX's RPCPPE included various assets but were not recorded in CAAP books of accounts;
 5. Area Center V and VI noted various tangible items below the capitalization threshold but reported in RPCPPE totaling P3.986 million and P86.308 million, respectively, pending reconciliation between accounting and supply records;
 6. CAAP-HO, ACs III, V, VI, VIII, and IX's RPCPPE lacked details, specifically the "Total Value" column; and
 7. RPCPPE of CAAP-HO and AC II were not updated due to incomplete physical inventory taking and/or incomplete report submission.
- 1.10. Moreover, the variance of P7.066 billion between the balance per books of accounts and the RPCPPE of AC XI, as contained in the CY 2021 Annual Audit Report of the Authority, remained unreconciled as of report date.
- 1.11. Lastly, AC XII conducted a complete physical count/inventory taking of properties; however, the RPCPPE that would have shown the result of the count was not submitted to the Audit Team. Thus, the account balance of AC XII amounting to P2.464 billion could not be ascertained.

- 1.12. Due to the unreconciled variance, the PE account balance as of December 31, 2022, could not be relied upon. Also, the incomplete physical count of CAAP properties cast doubt on the recorded PE's existence and property custodianship's integrity.
- 1.13. **We reiterated our prior year's recommendations, with modification, that Management direct:**
- a. **CAAP-HO, ACs II, VI, and AC IX Inventory Committee, in coordination with the Supply and Accounting Divisions, to implement COA Circular No. 2020-006 dated January 31, 2020, to establish the existence of the properties;**
 - b. **CAAP-HO, ACs II, III, VI, VIII, and IX to make the necessary adjustments to reflect the correct balances of the PE accounts in the financial statements;**
 - c. **AC V - Masbate Airport to submit the complete RPCPPE;**
 - d. **AC V - Virac Airport to remove/exclude from the RPCPPE the properties and equipment below the capitalization threshold;**
- 1.14. **We further recommended that Management direct:**
- e. **Accountants and responsible officials of CAAP-HO, ACs II, III, VI, VIII, and IX to exhaust all means to determine the cost of the properties;**
 - f. **Accountants and responsible officials of CAAP-HO, ACs II, III, V, VI, VIII, IX, and XI to conduct reconciliation of balances per books of accounts and RPCPPE; and**
 - g. **AC XII Inventory Committee to prepare and submit the results of the physical count of PEs through the RPCPPE.**
- 1.15. Management commented that the Inventory Committee, through the CAAP-HO SD, already started the validation of the PE listed in the Property Transfer Reports (PTRs) provided by the Department of Transportation (DOTr), despite the challenges in identifying or establishing the physical existence of PEs particularly the Air Navigation Service (ANS) equipment that were distributed to various CAAP airports and facilities.
- 1.16. Management added that the validation of the *Airport System* account, which includes the CNS/ATM Project (CAAP-wide), is ongoing. The CAAP-HO SD committed that they will issue the corresponding Property Acknowledgement Receipts (PARs) to the respective end-users to establish property accountability. Furthermore, the CAAP-HO SD committed to furnish the said documents to CAAP-HO AD for any necessary adjustments.
- 1.17. AC II also recommended that the newly designated Property Custodian undergo the necessary training on the preparation of relevant inventory records. At the same time, the Management of AC III commented that they would wait for the

instruction for the one-time cleansing of PE items and make necessary adjustments.

- 1.18. Management of AC V mentioned that they will conduct meetings with the airports within their jurisdiction to reiterate and address the concerns on PE.
- 1.19. On the other hand, the Management of AC VI, including various units and committees concerned, committed to reconcile and resolve the issues on the inventory taking of PE items.
- 1.20. Moreover, the Management of AC VIII informed that the reconciliation of RPCPPE, Property Cards (PC), and the PPE Ledger Cards (PPELC) was ongoing, and they would exert efforts to determine the costs of noted PE items without costs.
- 1.21. Further, the Management of AC IX commented that provisions of COA Circular No. 2020-006 in the conduct of preliminary activities, actual physical count, and reconciliation process are ongoing. AC IX added that they would comply with the audit recommendations.
- 1.22. Lastly, the Inventory Committee of AC XII committed to submit the RPCPPE to the Audit Team.
- 1.23. As a rejoinder, the Audit Team will monitor the Authority's compliance with COA Circular No. 2020-006 and the implementation of the recommendations.

b) Non-recognition of Service Concession Asset relative to the Caticlan Airport Development Project in the amount of P3.516 billion

- 1.24. PAS 16 *Property, Plant, and Equipment* requires that:

“The cost of an item of Property, plant, and equipment shall be recognized as asset, if and only if:

- 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.”

- 1.25. PAS 16 also provides that an item of property, plant, and equipment should initially be recorded at cost. Cost includes all costs necessary to bring the asset to working condition for its intended use. This would include not only its original purchase price but also costs of site preparation, delivery and handling, installation, related professional fees for architects and engineers, and the estimated cost of dismantling and removing the asset and restoring the site.
- 1.26. Moreover, Paragraph 17 of PAS 1 states that “In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable PFRS. A fair presentation also requires an entity: (a) to select and apply accounting policies in accordance with PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. PAS 8 sets out a hierarchy of authoritative guidance that

management considers in the absence of an IFRS that specifically applies to an item.”

- 1.27. Furthermore, Paragraph 10 of PAS 8 requires that “in the absence of a PFRS that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is: (a) relevant to the economic decision-making needs of users; and (b) reliable, in that the financial statements: (i) represent faithfully the financial position, financial performance and cash flows of the entity; (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form; (iii) are neutral, i.e., free from bias; (iv) are prudent; and (v) are complete in all material respects.”
- 1.28. On June 22, 2009, the Government of the Republic of the Philippines (ROP), acting through the Department of Transportation and Communications (DOTC) and CAAP, and Caticlan International Airport and Development Corporation (CIADC) entered into the Caticlan Airport Concession Agreement, where the Concessionaire was granted a franchise to operate and maintain the Caticlan Airport. In April 2010, San Miguel Corporation (SMC) acquired the majority interest/stake in CIADC. On September 23, 2010, as the Securities and Exchange Commission approved, CIADC was renamed Trans Aire Development Holdings Corporation (TADHC).
- 1.29. Review of the Caticlan Airport Concession Agreement disclosed the following provisions:

“2.2.1: The scope of the Project shall include:

- (a) Transfer of the operations and management to the Concessionaire of the Caticlan Airport, provided that the ROP shall retain (i) operations and control of air traffic services, national security matters, immigration, customs, and other governmental functions and (ii) regulatory powers insofar as aviation security, standards, and regulations are concerned at the Caticlan Airport;

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- (j) Transfer/turnover of the Caticlan Airport to ROP or its designee at the end of the Concession Period, free from any and all liens and encumbrances of whatever kind and nature;
- (k) Compensating ROP for allowing Concessionaire to operate and manage the Caticlan Airport in accordance with letter (a) hereof, in the amount indicated in Annex “N” as agreed upon by the Parties. Xxx”

“2.3 Franchise

- 2.3.1 Subject to existing law, the Concessionaire is hereby granted a franchise to operate and maintain the Caticlan Airport up to the end of the Concession period and to collect fees, rentals, and

other charges in accordance with this Agreement, as may be adjusted from time to time based on the Parametric Formula attached as Annexes F and F-1.” (emphasis ours)

“15.10 Reports

15.10.1 The Concessionaire or the Facility Operator, as the case may be, shall furnish DOTC reports on the construction, operation, and the maintenance of the Caticlan Airport. Xxx”

1.30. Section 17.1.1 of the Agreement also provides:

“Xxx. The Regulated Fees shall, on the start of the Transition Period, be fixed at the initial rates equal to those imposed and collected by DOTC on the day immediately preceding the Transition Period, as may be adjusted under this Agreement. Subject to existing laws, rules, and regulations, the Regulated Fees shall from the In-Service Date be fixed at the rates no less than those then being imposed and collected at the Ninoy Aquino International Airport or any other international airport in the Philippines of similar standards, whichever is higher in accordance with the Parametric Formula as indicated in Annexes F and F-1 of this Agreement. Xxx” (emphasis ours)

1.31. Also, the agreement defines the following:

“Parametric Formula” refers to the formula for rate adjustments of the Regulated Fees, i.e., Terminal Fees and Landing and Take Off Fees, contained in Annexes “F” and “F-1”, respectively.

1.32. Perusal of the above-cited provisions of the agreement showed that the Caticlan Airport Concession Agreement is, indeed, a service concession arrangement, in substance and form, that should be recognized in the books of accounts of CAAP, being the grantor; thus, transactions related to it must be accounted for under International Public Sector Accounting Standard (IPSAS) 32 *Service Concession Arrangements: Grantor*. The standard addresses the grantor’s accounting in such arrangements using an approach consistent with the operator’s accounting in IFRS Interpretations Committee (IFRIC) 12, *Service Concession Arrangements*.

1.33. The Godofredo P. Ramos Airport, also known as Caticlan Airport, now marketed and promoted as Boracay Airport, is one of the satellite airports recognized under the Property and Equipment (PE) account in the books of accounts of CAAP Area Center (AC) VI. Analysis of the PE account revealed that projects implemented and completed by CAAP in Caticlan Airport before the Concession Agreement were recorded and reclassified as Service Concession Assets, with a total net carrying value of P134.725 million as of December 31, 2022.

1.34. To determine whether the Caticlan Airport was accurately recognized in the books of accounts, the Audit Team referred to the audited financial statements of TADHC and the Project Update Report as of December 2022, prepared by the Independent Certification Engineer.

- 1.35. Examination of TADHC's audited financial statements disclosed that the Concessionaire accounted for the Concession Agreement (CA) under the intangible asset model as it receives the right to charge users of the public service. They used the account Service Concession Rights representing the design, construction costs incurred to obtain the right, including borrowing costs during the construction period, and the present values of the concession obligation representing the franchise fee payable to the Government of the Republic of the Philippines (ROP) and infrastructure restoration obligation. This account would be derecognized upon turnover to the ROP with no consideration. As of December 31, 2022, the carrying amount of the account in the books of TADHC stood at P5.789 billion.
- 1.36. Moreover, a review of the Project Update Report prepared by the Independent Certification Engineer as of December 2022 disclosed that the overall progress of various projects based on the Concession Agreement stood at 54.19 per cent, equivalent to P1.359 billion out of P2.507 billion project cost. The Report also showed that the executed sub-projects as of December 2022 stood at P3.516 billion. These executed projects, based on the aforementioned guidelines, should have been recorded as service concession assets in the books of accounts of CAAP.
- 1.37. The non-recognition of the service concession asset resulted in the understatement of the *Service Concession Asset account* by P3.516 billion and the related *Deferred Service Concession Revenue, Service Concession Revenue, Depreciation Expense, and Accumulated Depreciation accounts* by an undetermined amount.
- 1.38. **We recommended that Management direct the Accounting Division to:**
- a. **Review both parties' compliance with the Airport Concession Agreement provisions and analyze the related transactions carefully;**
 - b. **Prepare the necessary accounting entries and submit the Journal Entry Vouchers to the Audit Team; and**
 - c. **Coordinate with the DOTr and/or the Concessionaire, and require them to submit reports/documents on the construction, operation, and maintenance of the Caticlan Airport, pursuant to Paragraph 15.10.1 of the Concession Agreement, to support the necessary accounting/adjusting entry/ies.**
- 1.39. Management asserted that they have already requested TADHC for their assistance in identifying the subject service concession assets. TADHC provided CAAP with a Schedule of Service Concession Rights, however, it did not contain sufficient details to support the recording of the assets in the books of accounts of CAAP. Management commented that they will closely coordinate with TADHC to comply with the requirements of IPSAS 32 in recording the service concession assets.

- 1.40. Given the above, the Audit Team maintained its position that CAAP secure from TADHC the necessary documents and recognize the service concession assets in its books of accounts.

c) Variance amounting to P127.300 million between the balances of the General and Subsidiary Ledgers for PE accounts

- 1.41. This is a reiteration of the audit observation embodied in the CY 2021 AAR.
- 1.42. 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.”
- 1.43. Comparison between the GL and SLs for PE accounts disclosed a variance of P127.300 million. The detailed breakdown is presented in Table 2.

Table 2. General Ledger vs. Subsidiary Ledger of PE accounts

		Per GL	Per SL	Variance (Absolute Value)
CAAP HO	P	547,764,700	P 547,239,235	P 525,465
AC II		2,594,758,533	2,575,863,916	18,894,617
AC X		2,845,680,730	2,737,800,981	107,879,749
				P 127,299,831

- 1.44. Factors identified in CAAP-HO that contributed to the variance were unaccounted adjustments in Accumulated Depreciation amounting to P453,857, and prior year’s transactions related to ICT Equipment and Furniture and Fixtures account in the amount of P131,294.
- 1.45. Verification of documents for AC II disclosed that PE could not be fully accounted for due to non-reconciliation of reports for the accounts. Moreover, the audit revealed that one of the causes of variance was the non-recording of the cost amounting to P19.600 million and the provision for depreciation relative to various transferred properties from CAAP HO and some newly acquired properties.
- 1.46. On the other hand, the variance noted for AC X was directly attributable to the absence of detailed listings of PE items due to improper turnover in May 2014 and the lack of pertinent PE documents and reports from the previous Accountant.
- 1.47. The reliability and accuracy of PE account balances as of December 31, 2022, could not be ascertained due to unreconciled Subsidiary and General Ledgers balances.

1.48. We reiterated our prior year's recommendations, with modification, that Management direct:

- a. CAAP-HO, ACs II, and X's Accounting Division (AD) to reconcile the GL and SL balances, update the records, and prepare necessary adjusting entries; and
- b. AC X to 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.

1.49. We further recommended that Management direct AC X:

- c. To ensure that the Appraisal Team is composed of at least one in-house appraiser or its equivalent to be able to properly conduct the physical count and valuation during the implementation of one-time cleansing as prescribed in COA Circular No. 2020-006 dated January 31, 2020; and
- d. To maintain Property, Plant and Equipment Ledger Cards (PPELC) for the Accounting Unit and Property Cards (PC) for the Property and Supply Office/Unit for all existing and newly acquired PEs, which should always have reconciled balances.

1.50. Management commented that CAAP-HO AD had been exerting its best efforts to reconcile the prior year transactions' variances. Moreover, CAAP-HO AD committed that any progress would be communicated to COA, and adjusting entries would be prepared as necessary.

1.51. Also, the Management of AC II submitted a detailed reconciliation report of PE accounts and committed to make the necessary adjustments.

1.52. Moreover, AC X informed that an Appraisal Committee was created; however, the appraisal could not be completed due to lack of capacity to appraise the PE items. AC X added that they are waiting for further instruction from CAAP-HO regarding the conduct of one-time cleansing and the information that would be used in updating the schedules.

1.53. The Audit Team acknowledged the efforts of Management in reconciling the noted variances and will look forward to its resolution. Further, the Audit Team will monitor compliance, including verification of reports and adjustments to be made in CY 2023.

d) Non-recording of properties resulting in the understatement of Property and Equipment (PE) and/or Semi-Expendable Property by an undetermined amount

1.54. Paragraph Nos. 7 and 15 of PAS 16 provide the criteria for recognizing the cost of an item of Property, Plant, and Equipment as follows:

- “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.”
- 1.55. Analysis of the account disclosed various properties in CAAP-HO and AC III that were transferred, donated, or found at the station but were not recorded in the books of accounts. Details are presented in Table 3:

Table 3. Details of Unrecorded Properties

Location	Amount	Remarks
CAAP-HO	Undetermined amount	Land for CAAP Administrative Compound, Manila Control Tower, CAAP Hangar, FOBS Complex, Manila Radar
	Undetermined amount	61 units of firearms (Revolver, Jericho, Norinco, Mossberg, Remington, Carbine, SWSN, and Taurus)
AC III	Undetermined amount	Land used by Plaridel Airport; Various Buildings at San Jose, Plaridel, and Sangley Airports; and various equipment accounts

- 1.56. Verification disclosed that the above properties remained unrecorded in the books of accounts due to the absence of necessary documents to support its recognition. As a result, the completeness of the Property and Equipment account balance in the financial statements could not be ascertained.

1.57. We further recommended that Management direct:

- a. **CAAP-HO Asset Management Division (AMD), Aerodrome Development and Management Service (ADMS), SD, and AD, to expedite the validation of the unrecorded land/infrastructure assets/equipment by obtaining the necessary documents (i.e., documents for the transfer of properties, appraisal reports, titles, etc.);**
- b. **CAAP-HO and AC III to coordinate with the source agencies for documents to support the transfers;**
- c. **CAAP-HO SD and AD to obtain the documents to support the acquisition of firearms and determine its cost; otherwise, conduct an appraisal to assess its value, if warranted; and accordingly, AD to record the firearms in the books of accounts; and**
- d. **CAAP-HO, AC III AD to make the necessary adjustments to reflect the correct balances of the accounts in the financial statements.**

- 1.58. Management commented that they have already secured the necessary documents from the Registry of Deeds of Pasay City and that they are currently planning to set a meeting with the MIAA for the drafting of a memorandum of agreement to realize the transfer of land titles covering the CAAP Administrative Compound, Manila Control Tower, CAAP Hangar, FOBS Complex and Manila Radar.
- 1.59. Meanwhile, Management committed that they will make representation with the Philippine National Police to assist the Authority in establishing the cost of the firearms.
- 1.60. Further, the CAAP-HO AD committed that they will immediately record the subject assets as soon as they secure the necessary documents.
- 1.61. The Management of AC III commented that they would wait for the instruction for the one-time cleansing of PPE items and make necessary adjustments.

e) Non-derecognition of unserviceable properties resulting in an overstatement of PE accounts by P6.877 million and the continuous non-disposal of previously derecognized unserviceable properties at a minimum amount of P31.089 million

- 1.62. This is a reiteration of audit observation embodied in CY 2021 AAR.
- 1.63. 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.”
- 1.64. Verification of documents showed that several unserviceable properties of CAAP-HO and AC II costing P103.800 million were not derecognized from the books of accounts contrary to PAS 16. These properties have a carrying amount totaling P6.877 million. Details are presented in Table 4.

Table 4. Schedule of Unserviceable Properties

	Cost	Carrying Amount
CAAP-HO	P 103,320,439	P 6,829,240
AC II	480,000	48,000
	P 103,800,439	P 6,877,240

- 1.65. Inquiry disclosed that the CAAP-HO AD verified the unserviceable items vis-a-vis the documents (i.e., IIRUP, Waste Material Report, etc.) provided by the CAAP-HO Supply Division and traced these properties in the Lapsing Schedule. AD committed to make the necessary adjustments in CY 2023.
- 1.66. Meanwhile, audit revealed that ACs II, VI, and VII have unserviceable properties totaling P7.817 million, P19.300 million, and P3.972 million, respectively, which were already derecognized in the books of accounts but were still not disposed of.
- 1.67. Similarly, the disposal of fifty-one (51) unserviceable properties, the total amount of which could not be determined due to incomplete property records, had not yet been undertaken by AC XI.

- 1.68. Further, AC XII still did not dispose of the various unserviceable properties reported in the Inventory and Inspection Report of Unserviceable Properties (IIRUP), which were already inspected by the COA Regional Technical and Information Technology Service (RTITS); instead, these assets were stored at various storage rooms/bodegas of the Area Center and its satellite airports.
- 1.69. The non-derecognition of the unserviceable properties resulted in the overstatement of Property and Equipment accounts. Meanwhile, the non-disposal of the unserviceable properties exposed them to further deterioration, and consequently, a decrease in their value.
- 1.70. We reiterated our prior year's recommendations, with modification, that Management:**
- a. Direct the CAAP-HO and AC II AD to:**
 - i. Validate the supporting documents, and prepare the necessary journal entries to derecognize the unserviceable PE from the books of accounts;**
 - ii. Submit the Journal Entry Voucher to the Audit Team and complete documents for review;**
 - b. Direct Area Center XI to:**
 - i. 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 a copy of the same to the Audit Team and Disposal and Appraisal Committee (DAC) for inspection;**
 - ii. Require the DAC to prepare the Appraisal Review Report on Property for Disposal (ARRPD) showing the appraised values of the assets and submit a copy to the Audit Team for review;**
 - iii. Instruct DAC to convene and agree on the items' disposal mode and recommend the applicable mode of disposal for CAAP Head's approval and submit these documents to the Audit Team for evaluation and action before disposing of unserviceable items; and**
 - c. Instruct the CAAP-HO, ACs II, VI, VII, XI, and XII Disposal Committee 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.**
- 1.71. Management commented that the CAAP-HO Disposal Committee, through the CAAP-HO SD, was already preparing the Inventory and Inspection Report of Unserviceable Properties and Semi-Expendable Properties to commence the

disposal in CY 2023. Additionally, CAAP-HO AD will prepare the adjusting entries to recognize the disposals thereof.

- 1.72. AC II recommended that the new Property Custodian undergo necessary training and assistance in preparing and updating the inventory records. Moreover, the Management of AC VI commented that concerned units and committees committed to resolve the observations/issues on the PE items.
- 1.73. The Management of AC VII will meet with its Disposal Committee to itemize the properties, including the appraised value of items to be disposed of. Further, Management will coordinate with the CAAP-HO by requesting authority for the disposal as some items include highly technical equipment.
- 1.74. Lastly, the Management of AC XII will prioritize the disposal of the unserviceable properties.

f) Non-recognition of depreciation expenses and the non-derecognition of properties resulted in the overstatement of Work/Zoo Animals account

- 1.75. This is a reiteration of the audit observation embodied in CY 2021 AAR.
- 1.76. Review of subsidiary ledgers/lapsing schedules of AC XII revealed that the Authority did not record any depreciation expense for the 26 K-9 dogs recorded in its books of accounts. Likewise, the Accounting Division did not derecognize three deceased K-9 dogs with a carrying value of P1.290 million. The aforementioned issue resulted in the overstatement of the Work/Zoo Animals account.
- 1.77. As a result, the accuracy and reliability of the PE account balance could not be ascertained.
- 1.78. **We reiterated our prior year's recommendations that Management direct AC XII to compute for the depreciation of the Work/Zoo animals account and its related accounts, to ensure the fair presentation of the assets in the financial statements.**
- 1.79. **We further recommended that Management direct AC XII to prepare the necessary journal entries, duly supported with complete documents, to derecognize the dead K-9 dogs.**
- 1.80. Management of AC XII committed to prepare the necessary adjustments to record the depreciation of the Work/Zoo Animals accounts and derecognition of dead K-9 dogs.
- 1.81. The Audit Team will monitor the compliance in CY 2023.

2. The accuracy and validity of the *Accounts Receivable (AR)* and *Operating Lease Receivable (OLR)* balance of P6.089 billion could not be ascertained due to the existence of the material amount of past due accounts, unreconciled variances, unconfirmed balances, abnormal/negative receivable balances, and inadequacy of impairment/expected credit losses.

2.1. The AR balance of the Authority pertains mainly to Air Navigational Charges (ANCs) imposed on airline operators for the use of communication facilities owned by CAAP.

2.2. Analysis of the account disclosed the following:

a) ***Existence of past due accounts of P4.080 billion or 64 per cent of the consolidated receivable balance, including dormant accounts from ATO balances amounting to P234.090 million***

2.3. This is a reiteration of the audit observation embodied in CYs 2016-2021 AARs.

2.4. Under CAAP Circular No. 03-11, the ANCs for international and domestic flights were expected to be collected within 10 working days upon the airline operator's receipt of the billing statement. However, a review of the Aging of AR/OLR of CAAP-HO and ACs as of December 31, 2022, showed otherwise.

**Table 5. Report on Aging of AR/OLR (SL) as of December 31, 2022
(Amounts in Millions)**

	Total (SL balances)	Current accounts	Past due accounts			Total Past due
			Non- current accounts	ATO balances	Uncollected PAL accounts	
CAAP-HO	P 3,424.183	P 1,417.051	P 580.737	P 103.539	P 1,322.856	P 2,007.132
AC I	53.184	19.515	19.996	13.673	0	33.669
AC II	35.552	12.432	22.064	1.056	0	23.120
AC III	67.077	15.307	51.770	0	0	51.770
AC IV	156.857	51.963	104.894	0	0	104.894
AC V	63.935	30.022	24.512	9.401	0	33.913
AC VI	985.402	156.552	822.374	6.476	0	828.850
AC VII	271.895	117.069	135.578	19.248	0	154.826
AC VIII	214.562	60.474	154.088	0	0	154.088
AC IX	150.925	47.548	103.377	0	0	103.377
AC X	219.412	69.485	139.884	10.043	0	149.927
AC XI	610.974	210.826	329.494	70.654	0	400.148
AC XII	80.072	45.424	34.648	0	0	34.648
AC Total	2,909.847	836.617	1,942.679	130.551	0	2,073.230
	P 6,334.030	P 2,253.668	P2,523.416	P 234.090	P 1,322.856	P 4,080.362
Percentage	100.00%	35.58%	39.84%	3.70%	20.88%	64.42%

2.5. Analysis disclosed that P4.080 billion, or 64 per cent of the P6.334 billion receivables remained unsettled for over one year to more than 10 years. Out of the P4.080 billion, P234.090 million pertained to uncollected receivables of the defunct Air Transportation Office (ATO), the balances of which were carried over in the books of CAAP in CY 2008 without any supporting documentation. It also included past due accounts from airline companies and concessionaires which were inactive or no longer in operation and/or whose records to substantiate the receivable balances were incomplete under Area Centers

(ACs) I, II, III, IV, V, VI, VIII, IX, X and XII; thus, the probability of collection could no longer be ascertained.

- 2.6. The P1.323 billion or 21 per cent of the SL balances pertain to the unsettled balance of Philippine Airlines (PAL) as a result of a compromise agreement between CAAP and PAL dated October 6, 2017. Management confirmed that CAAP accepted PAL's final proposal in 2017 to settle its outstanding obligations resulting in the under-collection of receivables by P1.323 billion. Management sent a demand letter to PAL in June 2022. In its reply, PAL requested the breakdown, details, and supporting documents of the P1.323 billion. The CAAP-HO Accounting Division (AD) has yet to retrieve all the pertinent documents to substantiate the amount demanded.
- 2.7. Meanwhile, full provision for the allowance for impairment of the above ATO and PAL accounts were duly recorded in the books of accounts.
- 2.8. Due to Management's recent collection efforts, CAAP collected P1.199 billion past due accounts in CAAP-HO as of December 31, 2022. Also, Philippine Air Asia Inc. (PAA), the client with the biggest outstanding balance as of the end of the year, issued post-dated checks totaling P1.156 billion, intended to settle its outstanding obligation to CAAP-HO and ACs gradually. As of April 30, 2023, four post-dated checks totaling P493 million had been cleared and applied to PAA's prior years' consolidated payable balances.
- 2.9. Despite Management's collection efforts, the past-due accounts in CAAP-HO and its ACs remain substantial. The material amount of long-overdue accounts exposed the Authority to liquidity risk and reduced the funds that could have been used in its operations.
- 2.10. **We reiterated our prior years' recommendations, with modification, that Management instruct the Accounting Division/Units in CAAP-HO and all its Area Centers (ACs) to:**
 - a. **Exert more effort to issue monthly Statement of Accounts (SOA) to all air operators/airline companies reflecting the current billings and arrearages, and issue demand letters to all delinquent clients;**
 - b. **Formulate accounting 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, for approval by the Board of Directors;**
 - c. **Exert diligent effort to locate all the supporting documents necessary to establish the existence and validity of long outstanding and dormant receivables and exhaust all remedies to collect them; and**
 - d. **Evaluate the dormant accounts and request authority to write them off, if warranted, in accordance with COA Circular No. 2016-005.**
- 2.11. Management commented that the CAAP-HO AD had consistently issued collection notices and demand letters. Meetings were also held with major

airline companies to emphasize the CAAP's enforcement on collecting long outstanding receivable balances. The Finance Division also committed to address the various issues in billing and collection by creating an Accounts Receivable Working Group (ARWG).

2.12. The CAAP-HO AD committed to fast-track the preparation and issuance of billing statements to their clients and expedite collection. Management likewise agreed to impose penalties and surcharges on delinquent accounts, which would be embodied in the revised policy on fees and charges of CAAP.

2.13. Management also agreed to hire additional manpower to locate pertinent documents that would establish the existence and validity of dormant accounts. The CAAP-HO AD would evaluate such accounts' collectability and request write-offs accordingly.

b) Variance of P349.869 million between General Ledger (GL) and Subsidiary Ledger (SL) balances per Aging Reports of Accounts (AR) Receivable/Operating Lease Receivable (OLR)

2.14. This is a reiteration of the audit observation embodied in CYs 2017-2021 AARs.

2.15. Comparison between GL and SL balances (Aging Reports) disclosed a variance of P349.869 million, as shown in Table 6.

**Table 6. AR/OLR Balance as of December 31, 2022
(Amounts in Millions)**

Location	Accounts Receivable (AR)			Operating Lease Receivables (OLR)			Total
	GL Balance	SL Balance	Variance (Absolute Value)	GL Balance	SL Balance	Variance (Absolute Value)	Variance (Absolute Value)
CAAP-HO	P3,256.631	P3,423.729	P167.098	P 0.454	P 0.454	P 0	P167.098
AC I	44.457	44.457	0	8.727	8.727	0	0
AC II	33.640	33.564	0.076	1.996	1.988	0.008	0.085
AC III	64.195	57.295	6.900	9.801	9.782	0.019	6.919
AC IV	140.615	143.611	2.996	19.015	13.247	5.768	8.764
AC V	48.315	48.315	0	15.619	15.619	0	0
AC VI	985.402	985.402	0	0	0	0	0
AC VII	250.144	253.908	3.764	16.756	17.988	1.232	4.996
AC VIII	198.857	211.576	12.719	1.228	2.987	1.759	14.477
AC IX	134.834	136.370	1.536	14.555	14.555	0	1.536
AC X	102.534	176.784	74.250	57.084	42.627	14.457	88.706
AC XI	467.369	475.720	8.352	157.728	135.254	22.474	30.826
AC XII	56.182	80.072	23.890	2.572	0	2.572	26.463
			P301.580			P48.289	P349.869

2.16. In CYs 2020-2021 the variance in CAAP-HO was attributed mainly to the payments made by unidentified payors who were mostly international and/or foreign-based airline companies. The payments made through telegraphic/bank transfers were already recorded in GL but not posted to their respective SLs due to the absence of details of the payor/remitter as well as the billing references.

- 2.17. In CY 2022, details of some remittances were already established, thus adjustments were effected accordingly, while the remaining unidentified remittances in CAAP-HO were reclassified under the temporary clearing account *Undistributed Collections* with a reported balance of P792.263 million as of December 31, 2022.
- 2.18. Verification revealed that the variance of P167.098 million between the GL and SL balances in CAAP-HO could be attributed to the following:
1. Unidentified payors/remitters who directly deposited their payments to CAAP's depository bank without notifying CAAP of their payment nor providing the details for such payments. Some of the clients remained non-compliant despite detailed instructions stated on the face of the revised billing statement, which required them to submit proof of remittance and billing details.
 2. Non-reconciliation of the collections from advance payments of ANCs amounting to P274.548 million recorded under the *Other Unearned Revenue/Income* account. Adjustments could not be effected yet due to lack of manpower and voluminous transactions currently handled by the Revenue Section. While these advance payments were already deducted from the payable balances of the concerned air operators and recorded in their respective SLs, the same remain unadjusted in the GL balance of AR.
 3. Unposted Abstract of Bills Rendered for CY 2022 billings of ANCs in the total amount of P3.069 million.
 4. Various disparities, mispostings, and erroneous recordings resulted in the understatement of the balance per Report of Aging of Receivables/SLs by at least P61.441 million.
- 2.19. In ACs II, III, IV, VII, VIII, IX, X, and XII the variance between the books likewise existed due to the following: 1.) absence of sufficient documents to facilitate the reconciliation 2.) non-preparation of complete SLs 3.) lack of personnel to conduct the reconciliation and retrieval of records and 4.) improper turnover of accounting records from the previous personnel-in-charge.
- 2.20. Due to the variance noted between the GL and SLs/Report of Aging of Receivables, the accuracy and reliability of the balance of *AR* as of December 31, 2022, could not be ascertained.
- 2.21. We reiterated our prior years' recommendations that Management instruct the Accounting Division/Units in CAAP-HO and all its ACs to conduct an in-depth examination and periodic reconciliation of the variances between the GL and the SL balances, and prepare the necessary adjusting entries, if warranted.**

2.22. We further recommended that Management instruct the CAAP-HO AD to:

- a. For the Unidentified Remittances under the *Undistributed Collections* account:
 - i. Issue a memorandum enjoining all clients to submit the remittance advice, proof of payment, and reference numbers of billings paid/settled for the timely issuance of official receipts and updating of SLs;
 - ii. Conduct a regular reconciliation of the account and verify/determine other causes of the accumulation of unidentified remittances and take corrective action to prevent the recurrence thereof;
- b. Conduct a regular (at least quarterly) reconciliation of the *Other Unearned Revenue/Income* account vis-à-vis *Accounts Receivable*. Ascertain the income already earned from advance payments of ANCs and take up the necessary adjusting entry/ies in the books;
- c. Prepare the JEV to record the unrecorded CY 2022 billings of ANCs amounting to P3.069 million and submit a copy thereof to the Audit Team; and
- d. Conduct an intensive review on the preparation of the Report of Aging of Receivables and all of its corresponding SLs to ensure the accuracy and correctness of the balances reported in the books of accounts.

2.23. Management commented that ARWG would be able to address the issues on the reported variance between the books upon in-depth examination and periodic reconciliation of receivable accounts.

2.24. For the unidentified remittances recorded under the *Undistributed Collections* account, the CAAP-HO AD committed to reiterate the requirement for clients to submit the Remittance Advice upon issuance of collection notice.

2.25. Revenue Section also commented that maintenance of subsidiary ledgers for the *Other Unearned Revenue/Income* already started and the corresponding adjustments for the income earned would be made once the reconciliation of affected accounts was completed. Moreover, the Revenue Section committed to review the Report of Aging of Receivables and its pertinent SLs before submission to the Audit Team.

- c) ***Variance of P333.308 million between the accounting records and the amount confirmed by 38 airline companies and the unconfirmed balance of P819.195 million in CAAP-HO***

2.26. This is a reiteration of the audit observation embodied in CYs 2016-2021 AARs.

2.27. 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 the reporting period because, for example, some users may need to identify and assess trends."

2.28. Confirmation letters were sent out to 75 selected debtors in the CAAP-HO and the results were as follows:

Table 7. Summary of Results of Confirmation

Particulars	No. of Debtors	SL Balance as of December 31, 2022	Per Confirmation	Variance/ Unconfirmed Balance (Absolute Value)
SL balance > amount confirmed	32	P 819,923,004	P 492,807,969	P 327,115,035
SL balance < amount confirmed	6	25,198,343	31,391,124	6,192,781
With confirmation	38			333,307,816
<i>Without confirmation</i>	37	819,194,979	No reply	819,194,979

2.29. Analysis showed a total of P819.195 million in receivable balances that were not confirmed by clients. Out of the 75 selected debtors, only 38 replied, but the results thereof showed a total variance of P333.308 million between the accounting records and the amount confirmed.

2.30. The variance between the SL balances and the amount confirmed was primarily attributed to the unaccounted remittances made through telegraphic/bank transfers that remained unposted in the respective SLs. As discussed above, 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.

2.31. Furthermore, as already observed in the prior years' audit, most of the confirmed balances pertain only to the records of the airline operators' current ground handlers. The ground handlers served as representatives of international airline companies for their operations/services rendered within the Philippines. But as the ground handlers of international airline companies frequently changed, the unreconciled balances from clients' previous ground handlers remained outstanding and accumulated over time, hence contributing to the substantial amount of variance upon confirmation.

- 2.32. Had there been a definite plan to address the concern on the unreconciled and uncollected prior years' receivable balances, these receivable balances could have been collected and funds therefrom would be used by this Authority in the performance of its mandate.
- 2.33. **We reiterated our prior years' recommendations, with modifications, that Management instruct the CAAP-HO AD to:**
- a. **Designate personnel who will coordinate directly with the clients/airline companies to reconcile the balances between CAAP and the clients' records; take up the necessary adjustments in the books of accounts, if warranted, and furnish the Audit Team with the results of reconciliation made; and**
 - b. **In coordination with other concerned offices under Flight Standards Inspectorate Service (FSIS), devise a definite plan to be embodied in the policy on billing and collection to address the long-standing issue of unreconciled/uncollected prior years' receivable balances particularly on flights previously handled by the operators' former ground handlers.**
- 2.34. Management commented that ARWG would investigate the underlying causes of the reported variance between accounting records and the amount confirmed by the clients. The CAAP-HO AD likewise committed to send all of the billing statements and collection notices with detailed SOA to the head office address of the clients.
- d) *Existence of negative/abnormal receivable balances in AC VIII totaling P10 million***
- 2.35. In AC VIII, negative/abnormal balances amounting to P10 million were noted representing overpayments and/or advance payments, collections from unposted billings and other unidentified collections that could not be applied yet to any particular bill or SOA which floated as negative amounts in the Aging Schedule.
- 2.36. The negative/abnormal balances erroneously reduced and misstated the total amount of receivables, thereby affecting the fair representation of the receivable accounts in the financial statements.
- 2.37. Meanwhile, as a result of the prior years' audit in CAAP-HO, the CAAP-HO AD recorded the clients' overpayments and/or advance payments in the *Other Unearned Revenue/Income* account while the unidentified remittances were lodged in the *Undistributed Collections* account. The existence of negative balances in ACs IV and VIII showed that CAAP-HO did not fully disseminate to all of its ACs' Accounting Units the proper accounts to be used to reclassify the negative/abnormal receivable balances.

2.38. We recommended that Management direct the CAAP-HO AD/Units in:

- a. CAAP-HO to disseminate to all the Accounting Units in ACs the current practice in recording over/advance payments and unidentified collections to ensure uniformity and consistency in recording;
- b. AC VIII to:
 - i. Conduct an in-depth investigation to find the root cause/s of abnormal/negative balances; and
 - ii. Coordinate with CAAP-HO the preparation of the necessary adjusting entries to reclassify the negative/abnormal balances to their proper account.

2.39. Management commented that analysis of the nature of transactions and reconciliation of records for the P10 million negative balances in the books of AC VIII was still ongoing.

e) *Inadequate allowance for impairment/expected credit losses based on PFRS 9*

2.40. Paragraph Nos. 5.21 and 5.2.1. of PFRS 9, *Financial Instruments* provides that after initial recognition, financial instruments shall be measured at amortized cost or fair value (through profit or loss or other comprehensive income), depending on the classification by reference to the business model within which these are held and its contractual cash flow characteristics. The standard also provides that an entity shall apply the impairment requirements in Section 5.5, Recognition of Expected Credit Losses (ECL) to these financial assets.

2.41. Moreover, paragraph 5.5.17 of PFRS 9 pertaining to the measurement of expected credit losses provides that “an entity shall measure the ECL of a financial instrument in a way that reflects: a) the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; b) the time value of money; and c) reasonable and supportable information that is available without undue cost and effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.” [Underscoring supplied]

2.42. Based on the Authority’s current practice, the Net Realizable Value of *Accounts Receivable (AR)/Operating Lease Receivable (OLR)* balance is measured at the principal amount of receivables less the *Allowance for Impairment*. The Authority had provided an allowance for impairment loss at the end of the reporting period to cover credit losses expected from the receivables.

2.43. However, verification revealed that aside from the 100 per cent impairment loss provision for ATO dormant receivable balances and uncollected PAL accounts, the percentages used for the computation of impairment losses ranged from two to three per cent only for current accounts (less than 90 days but not over 365 days) and five per cent for past-due accounts.

- 2.44. The significant increase in credit risks, the time value of money, and other factors that could affect the future cash flows that the Authority expected to receive were not yet taken into consideration in the applied uniform rate of five per cent on past due accounts for over one to three years and onwards, from July 2008 to December 2021.
 - 2.45. Moreover, the economic impact of the COVID-19 pandemic on the aviation industry that exposes the Authority to higher credit risks and subsequent payment defaults of clients was not yet likely considered in the computation of impairment losses.
 - 2.46. Thus, the Allowance for Impairment/ECL was deemed inadequate. As a result, the accuracy of the AR/OLR consolidated balance of P6.089 billion and the respective Allowance for Impairment amounting to P1.642 billion as of December 31, 2022, could not be ascertained.
 - 2.47. **We recommended that Management instruct the CAAP-HO AD/Units in CAAP-HO and all Area Centers to:**
 - a. **Adhere to the impairment requirements of PFRS 9 on the recognition and measurement of ECL of AR/OLR, and accordingly, incorporate the same in its Accounting Policy; and**
 - b. **Prepare adjusting entries to ensure the fair presentation of the receivable accounts and the related impairment loss accounts in compliance with PFRS 9.**
 - 2.48. Management agreed to adhere to the impairment requirements of PFRS 9. The CAAP-HO AD also committed to hire a subject matter expert to conduct relevant training for recognizing and measuring applicable impairment/expected credit losses on receivable accounts.
- 3. CAAP accepted the payment for Air Navigational Charges (ANCs) based on its fixed peso equivalent per billing instead of the peso equivalent at the time of payment, contrary to the provision of PAS 21, resulting in the understatement of Accounts Receivable and Gain on Foreign Exchange by at least P41.383 million.**
- 3.1. PAS 21, *The Effects of Changes in Foreign Exchange Rates*, provides that “a foreign currency transaction shall be recorded, xxx, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.”
 - 3.2. Moreover, Sections 2 and 3 Part III of CAAP Circular No. 03-11 dated April 11, 2011, *Fees and Charges for Air Navigational Charges*, provide that “Overflight and Departing or Arriving International Flight at any Philippine airport is a charge in U.S. Dollar or its Peso equivalent at the time of payment based on the derived formula for calculating Air Navigation Charges (ANC) which is equal to the Distance (D) flown by aircraft in kilometers divided by one hundred (100) and multiplied by its weight factor.”

- 3.3. The Audit Team observed that the Billing Section presented on the face of the billing statements: 1.) the amount billed in US dollars (USD), 2.) the foreign exchange rate used, and 3.) its peso equivalent. It would seem that the Authority had given the clients an option to pay either in USD or its fixed peso equivalent indicated in the billing statements, which is not in accord with PAS 21 and CAAP Circular No. 03-11, series of 2011.
- 3.4. Through the data of selected clients who were billed in CY 2022 and accordingly paid ANC's in Philippine peso, our audit revealed an unpaid difference of at least P41.383 million, as shown Table 8.

Table 8. Summary of Unpaid Difference from ANC's in CY 2022

Amount of ANC's billed in USD	PHP equivalent of the ANC's		Unpaid Difference in CY 2022
	Using the Forex rates at the time of billing	Using the Forex rates at the time of payment	
\$15,973,510	P848,878,936	P890,261,438	P41,382,502

- 3.5. Analysis revealed that the clients paid the peso equivalent of the ANC's reflected in the billing statements instead of the peso equivalent at the time of payment. This resulted in an unpaid difference of at least P41.383 million due to the increase in foreign exchange rates in CY 2022, brought about by the weakening of the peso.
- 3.6. The Authority could have realized this amount had CAAP collected from clients the ANC's at its peso equivalent at the time of payment, in accordance with CAAP Circular No. 03-11, series of 2011, instead of the fixed peso equivalent reflected in the billing statements. As a result, the *Accounts Receivable* and *Gain on Foreign Exchange* (realized) were understated by at least P41.383 million.
- 3.7. **We recommended that Management instruct the CAAP-HO AD:**
- For CY 2022-2023 billings paid in pesos, determine the difference between the ANC's paid by the clients using the forex rates at the time of billing (as shown in the SOA) vis-a-vis at the time of their payment and issue supplemental SOA to collect the unpaid difference;**
 - Issue billing statements to clients showing only the amount of ANC's in US dollars, and if clients opt to pay in Philippine peso, compute its peso equivalent using the applicable Bankers Association of the Philippines' (BAP) Spot USD/PHP rate at the time of payment; and**
 - Strictly adhere to CAAP Circular 03-11, series of 2011, by accepting payment of operational charges either i.) in USD or ii.) its peso equivalent at the time of payment.**
- 3.8. Management agreed to adhere to the provisions of the existing CAAP Circular No. 03-11, series of 2011. Henceforth, they also committed that billings in USD will include a notation that payments may be made in PHP equivalent using the

BAP rate at the time of payment. Likewise, Management agreed to issue supplemental billings for the unpaid differences covering CY 2022-2023 billings.

4. Non-recognition of exchange differences, contrary to the provision of PAS 21, resulted in the overstatement of *Accounts Receivable* and *Retained Earnings* by at least P21.919 million.

- 4.1. Paragraph 28 of PAS 21 provides that “Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognized in profit or loss in the period in which they arise, xxx.”
- 4.2. The Audit Team noted that when billing statements were issued, AD recognized in the books of accounts the billed ANCs in USD using the fixed peso equivalent per billing.
- 4.3. For those clients who pay ANCs in USD, the Revenue Section recorded the amount received without recognizing the realized foreign exchange gain or loss arising on the collection of receivables translated at rates different from the time of the initial recording of the receivables. This is contrary to PAS 21, which requires that the exchange differences shall be recognized in the profit or loss in the period they arise.
- 4.4. Review of the SLs of four selected clients disclosed receivable balances from CYs 2005 – 2008 accumulated to P21.919 million due to the non-recognition of foreign exchange gain or loss. The difference between the amounts billed and paid remains in the subsidiary ledger as outstanding receivables.
- 4.5. Considering that selected clients already paid in full the amount due from them in USD, there is no way that CAAP could collect the amount of P21.919 million, which is an aftermath of the non-recognition of foreign exchange differences. As a result, *Accounts Receivable* and *Retained Earnings* were overstated by at least P21.919 million.
- 4.6. **We recommended that Management direct the CAAP-HO AD to:**
 - a. **Record dollar-denominated transactions in accordance with the provisions of PAS 21 and accordingly recognize in the books of accounts the foreign exchange gain or loss arising therefrom;**
 - b. **Further, validate whether the prior year’s receivable balances of P21.919 million from the selected clients were due to the unrecognized foreign exchange differences in CYs 2005 - 2008, and prepare the necessary adjustments in the books of accounts, if warranted. Otherwise, enforce the collection of said amount to the respective clients; and**
 - c. **Review the SLs of other clients and ascertain whether the prior years’ outstanding balances per books of accounts were also due to the**

unrecognized foreign exchange differences. Prepare the necessary adjustments, if warranted.

- 4.7. Management commented that CAAP currently uses the weighted average rates based on the provisions of PAS 21. The CAAP-HO AD was also trying to retrieve the original documents, particularly the JEVs, to verify whether the P21.919 million balance was due to foreign exchange differences or an unreconciled balance from ATO books.
 - 4.8. The CAAP-HO AD also agreed to review all the SLs of dollar-denominated assets and liabilities for the revaluation of reported balances. They also committed to recognize the corresponding foreign exchange differences upon receipt of payment from customers. Further, guidelines on the recording of foreign gains and losses will also be prepared.
- 5. Non-translation of dollar-denominated ANCs at the end of the reporting period, contrary to the provision of PAS 21, resulting in the overstatement of *Accounts Receivable* and understatement of *Loss on Foreign Exchange* by at least P16.757 million.**

- 5.1. Paragraph 23 of PAS 21 states, "Foreign currency monetary items shall be translated using the closing rate." The closing rate is defined as the spot exchange rate at the end of the reporting period.
- 5.2. Analysis disclosed that the *AR* balance from US dollar-denominated transactions for Air Navigational Charges was not translated using the closing rate at the end of the reporting date. Based on the billing statements issued to selected clients in CY 2022, the Audit Team translated the outstanding balances therefrom using the BAP Spot USD/PHP closing rate. The audit revealed an unrealized loss on foreign exchange of P16.757 million, with details shown below:

Table 9. Summary of Unrealized Loss from CY 2022 Billings

Billings (CY 2022)		Payments		Balance		Translation as of Dec.	Unrealized Forex
USD	PHP	USD	PHP	USD	PHP	31, 2022	Loss
A	B	C	D	E [A-C]	F [B-D]	G [E x 55.755]	[F-G]
32,959,811	1,805,440,152	20,048,726	1,068,825,692	12,911,085	736,614,460	719,857,544	(16,756,916)

- 5.3. Considering that the CAAP-HO AD did not translate the *Accounts Receivable* balance as of December 31, 2022, the foreign exchange differences from translation were neither recognized in the books of accounts, thereby overstating the *Accounts Receivable* and understating the *Loss on Foreign Exchange* (unrealized) by at least P16.757 million.
- 5.4. **We recommended that Management direct CAAP-HO AD to ensure that foreign currency-denominated transactions be translated on December 31 of each year using the BAP Spot USD/PHP closing rate and recognize the corresponding unrealized foreign exchange gain/loss in the books of accounts, pursuant to the provisions of PAS 21.**

- 5.5. Management commented that CAAP-HO AD would review the SLs of foreign currency-denominated accounts to determine the appropriate adjustments to be made. They also agreed to translate the same based on USD/PHP closing rate at the end of each reporting period.
- 6. The Inventory Held for Consumption accounts totaling P153.643 million was not faithfully presented in the financial statements due to: a) unreconciled variance between accounting records and the Report on Physical Count of Inventories (RPCI); b) inaccurate use of cost formula; and c) unrecognized loss on impairment for obsolete accountable forms.**
- 6.1. This is a reiteration of the audit observations embodied in CY 2018 to CY 2021 AARs.
 - 6.2. PAS 1 *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)
 - 6.3. Meanwhile, the Conceptual Framework for Financial Reporting states that verifiability is a qualitative characteristic that enhances the usefulness of the information and helps assure users that the information faithfully represents the economic phenomena it purports to represent. Verifiability, therefore, necessitates that management assertions in the financial statements may be verified as to their existence, completeness, and accuracy.
 - 6.4. Audit of Inventory accounts disclosed the following deficiencies:
 - a) ***Variance between accounting records and the RPCI amounting to P102.392 million***
 - 6.5. 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 regularly as part of the agency's control activities.
 - 6.6. 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.
 - 6.7. Comparison between the recorded balances of Inventory Held for Consumption accounts maintained by the Accounting Division and RPCI submitted by the Inventory Committee disclosed a variance totaling P102.392 million, which is a staggering 66.64 per cent of the recorded balance of P153.643 million. Details are shown in Table 10.

Table 10. GL vs. RPCI

Location	Total Inventory		Per Inventory Report	Variance (Absolute)
		Per GL		
CAAP-HO	P	49,380,377	P 7,176,559	P 42,203,818
Area Centers				
AC V		42,324,799	2,243,848	40,080,951
AC VI		27,116,943	8,093,913	19,023,030
AC XII		3,326,843	4,411,229	1,084,386
P 102,392,185				

- 6.8. The variance of P102.392 million could be significantly attributed to the continuous non-conduct of periodic reconciliation of records between the Accounting Division/Unit and Supply Division/Unit despite the constant reiteration of the audit observation in the prior years' Annual Audit Reports (AARs).
- 6.9. Further, the Accounting Division (AD) still did not maintain Supplies Ledger Cards (SLCs) for CAAP's inventory accounts. The SLC is a document that the AD should maintain to record the receipts and issuances for each type of supply. It is the equivalent record of the Stock Cards used and maintained by the Supply Division (SD). The SLCs are crucial in the reconciliation process. It is used, along with the Stock Cards of the SD and the RPCI, to reconcile the balance of the inventory accounts. Any discrepancy noted should be immediately verified, investigated, and adjusted accordingly.
- 6.10. We learned that the AD in CAAP-HO had assigned one person to establish its SLCs. However, to date, significant progress has yet to be made.
- 6.11. In AC V and AC VI, the submitted RPCI was incomplete, hence the variance.
- 6.12. In AC XII, verification revealed that one of the reasons for the discrepancy was the practice of the Accounting Division to recognize deliveries as an outright expense.
- 6.13. In addition, the inaction of Management in CAAP-HO to conduct periodic reconciliation and maintain the required reports contributed to the continued existence of the following deficiencies, rendering the Inventory accounts unreliable.
- i. Issuances of various office supplies inventories were not reflected in the Report of Supplies and Materials Issued (RSMI) submitted to the Accounting Division. They were not appropriately recorded in the books of accounts, resulting in the overstatement of Office Supplies Inventory and the understatement of Office Supplies Expenses by P1.283 million.***
- 6.14. As part of inventory management, every requisition and issuance of inventory shall be supported by a duly signed and approved Requisition and Issue Slip (RIS), with proof of receipt from the end user. These RISs shall be summarized monthly through RSMI for submission to the AD for proper recording in the books of accounts.

- 6.15. We observed that various inventories already issued to end-users totaling P1.283 million were still recorded in the books of accounts. Scrutiny of records showed that the issuances, while supported with RIS and duly reflected in the Stock Cards maintained by the SD, were excluded in the RSMI submitted to the AD. As such, the issuances were not recorded in the books of accounts.
- 6.16. Inquiry with the SD disclosed that, due to voluminous transactions, various issuances were inadvertently excluded in the RSMI. It was further noted that there were RISs, which lacked the specific Stock Card No. and/or had ambiguous descriptions of the requested supplies, causing the validation of the issued items per RIS vis-à-vis the submitted RSMI to become cumbersome and difficult.
- 6.17. It was further noted that the AD did not verify if the RSMI submitted by the SD corresponds to the attached RISs before recording.
- 6.18. The issue resulted in the overstatement of the Office Supplies Inventory and understatement of the Office Supplies Expenses accounts by P1.283 million, but more importantly, exposed the Authority to unnecessary risks of loss, wastage, and/or asset misappropriations.

ii. Receipt and utilization of fuel and lube oil remained unrecorded in the books, resulting in the overstatement of Other Prepayment accounts by P57,812 and the misstatement of the FOLI and FOLE accounts by an undetermined amount.

- 6.19. The Revised Chart of Accounts for Government Corporations describes 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.
- 6.20. The Authority maintained diesel fuel and lube oil as inventory for using its generators/power plants in case of power failure. The Air Navigation Service (ANS) is 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. Fuel purchases from suppliers were directly loaded into the generators, and the ANS kept track of deliveries and consumption through the Generators Operation Record and Fuel Report (GORFR), which they prepare monthly.
- 6.21. Audit noted the following:
- Utilization of fuel and lube oil since CY 2017 remained unrecorded in the books.

Despite prior years' audit recommendations, utilization of fuel and lube oils remained unrecorded in the books of accounts. Inquiry with the concerned offices disclosed that the ANS submitted the RSMIs to the SD, and the SD after that forwarded the RSMIs to the AD. However, the Accountant opted

not to record the utilization due to lack of basis for the unit cost. This information would be obtainable once a thorough account reconciliation had been conducted.

We emphasized that this issue had been observed for the past five years. However, the SD, AD, and ANS had yet to take significant action to reconcile their records. Records showed no utilization in the books of accounts since CY 2017.

- Deliveries of Lube Oil in August and December 2022, per Invoice Nos. 1011677539 and 1011853104 amounting to P26,023 and P31,790, respectively, remained unrecorded in the books of accounts, resulting in the understatement of the FOLI account and overstatement of the Other Prepayment account by P57,812.
- Discrepancy of 5,510 liters of fuel between the reported balances per GORFR and the result of the actual physical count, discovered and reported in the submitted RPCI, was not investigated by the Inventory Committee.

iii. Doubtful existence and completeness of the OSMI balance of P25.697 million

- 6.22. Despite prior years' audit recommendations, the Supply and Accounting Divisions in CAAP-HO did not take necessary action to reconcile and address the non-moving balance of the OSMI account at year-end. The Supply Division asserted that it did not maintain inventory of OSMI and that prior purchases were immediately issued to respective end-users; hence, the zero balance in the RPCI.
- 6.23. The inaction of the Accounting Division to determine the nature of the account and make necessary adjustments, if warranted, cast doubt on the existence and completeness of the reported balance of the OSMI account totaling P25.697 million.
- 6.24. We emphasized that the lack of reconciliation, non-maintenance of SLCs and other records, as well as the non-recording of receipt and utilization of fuel and lube oil, have already been observed by the Audit Team for several years, and the Offices involved have year after year, committed to conduct the reconciliation. However, the Audit Team has yet to see any clear or definitive action from the CAAP Management to, once and for all, resolve this issue.
- 6.25. The conduct of the physical count, the maintenance of appropriate records such as the RPCI and SLCs, and the subsequent reconciliation of accounting and supply records, are necessary actions or steps that would help ensure financial information are accurate and complete. It is noteworthy that had the Accounting Division and Supply Division reconciled their records regularly, the variance would have been more easily identified and resolved. The lack or absence thereof resulted in the unreliability of the supplies inventory accounts as reported in the Authority's financial statements.

6.26. We reiterated our prior years' recommendations, with modification, and Management agreed to:

a. In CAAP-HO:

- i. Designate/create a Committee that will, once and for all, conduct a thorough and detailed reconciliation of the property and accounting records to establish the true balance of the inventory accounts, to be headed by the Department Manager III, Finance Department, who will closely monitor the compliance of the concerned offices thereof;**
- ii. Direct the Department Manager III, Finance Department, to coordinate with the concerned offices and devise a policy on finally settling and recording prior and current years' fuel consumption in the books of accounts and ensure that future issuances are promptly recorded thereafter;**
- iii. Instruct the Supply Division to ensure that all issuances are supported with complete and properly-accomplished RISs, duly reported in the RSMI submitted to the Accounting Division;**
- iv. Direct the Department Manager III, Finance Department, to instruct the Accounting Division to (1) prepare and maintain SLCs for all inventory accounts to be regularly reconciled with the SC maintained by the Supply Division, and (2) conduct verification as to the completeness and accuracy of the RSMI submitted before recording in the books of accounts, and monitor its compliance thereof.**

b. In AC V:

- i. Direct the Inventory Committee to conduct a complete count of the Authority's inventories and prepare and submit a complete RPCI;**
- ii. Instruct the Accounting In-Charge to maintain complete and updated Supplies Ledger Cards;**
- iii. Require the Supply Officer and Accounting In-Charge to reconcile their records and prepare the necessary adjusting entry, if any;**

c. In AC VI:

- i. Direct the Inventory Committee to conduct a rigid physical count of inventories in each airport under AC VI jurisdiction;**
- ii. Direct the accountant and the supply officers to reconcile the inventory account balances in the GL and RPCI; and**

- d. In AC XII, to stop the practice of recording purchases of supplies as outright expenses and henceforth, record the purchase of supplies and materials in its appropriate inventory accounts and recognize the corresponding issuances as an expense based on the RSMI prepared by the Supply Unit.
- b) ***Inconsistent/erroneous use of inventory cost formula in CAAP-HO resulted in the understatement of Accountable Forms, Plates, and Stickers Inventory (AFPSI) account by P2.915 million***
- 6.27. PAS 2 *Inventories* provides that an entity shall use the same cost formula for all inventories having a similar nature and use to the entity.
- 6.28. Meanwhile, No. 4, Summary of Significant Accounting Policies of the Notes to Financial Statements of the CY 2022 Financial Statements of the Authority 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.
- 6.29. Audit disclosed that the AD in CAAP-HO still did not use the average cost method and instead used the First-in-First-out Method when computing the unit cost of AFPSI for CY 2022.
- 6.30. Inquiry with the designated personnel in the AD disclosed that he is still reconciling the receipts and issuances of AFPSI. As such, the average cost method was not yet implemented.
- 6.31. The audit team recalculated the unit cost of inventories before issuance for CY 2022 and noted an understatement of P0.949 million. Together with the noted understatement on the account for the past years totaling P1.966 million which have remained uncorrected as of December 31, 2022, the observation resulted in the understatement of the AFPSI account and overstatement of the Accountable Forms Expenses account by P2.915 million.
- 6.32. **We reiterated our prior years' recommendations with modification, and Management agreed to direct the Department Manager III, Finance Department to:**
 - a. **Oversee the resolution of the issue by ensuring that the AD will consistently apply 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 the cost formula.**
- c) ***Unrecognized loss on impairment for obsolete accountable forms***
- 6.33. PAS 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 has declined. In such case, writing inventories down below

cost to net realizable value is consistent with the view that assets should not be carried in excess of amounts expected to be realized from their sale or use.”

- 6.34. As pointed out in the prior year’s AAR, several accountable forms in the custody of the Supply Division were rendered obsolete due to the registration of CAAP as a VAT-registered entity in September 2018 and the integration of terminal fees with airline tickets in September 2017. Considering the circumstances, the Accounting Division should have recognized impairment loss to fairly present the AFPSI on the financial statements in accordance with the provisions mentioned above.
- 6.35. Records showed that, as of December 31, 2022, the AFPSI account includes obsolete accountable forms amounting to P2.208 million. Moreover, Management initiated the partial disposal of accountable forms on December 19, 2022. However, the Accounting Division did not record the disposed forms due to the absence of supporting documents, resulting in the overstatement of the account. Due to the unreliable accounting records, the Audit Team was precluded from ascertaining the amount of overstatement.
- 6.36. We reiterated our prior years’ recommendations, and Management agreed to direct the Accounting Division and Supply Division in CAAP-HO to:**
- a. Account for all obsolete accountable forms in the custody of CAAP-HO and Area Centers;**
 - b. To recognize an impairment loss for the obsolete accountable forms, as necessary; and**
 - c. Ensure that the disposal of the obsolete accountable forms is in accordance with applicable laws, rules, and regulations, and record the disposal of inventory as necessary.**
- 7. The balance of *Due to NGAs* account amounting to P1.694 billion could not be relied upon due to variance between the General (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 in CAAP-HO and Area Center X.**
- 7.1. This is a reiteration of the audit observations embodied in CYs 2018 to 2021 AARs.
- 7.2. Paragraph 15 of the Philippine Accounting Standards (PAS) No. 1 *Presentation of Financial Statements* requires the fair presentation of financial statements of an entity.
- 7.3. Also, the Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board (IASB) explains the characteristics and recognition of liability in the financial statements. Item 4.46 of the said framework provides that “liability is recognized in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result

from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably...”

- 7.4. The subsidiary Ledger provides internal control over record-keeping, and the balance thereof must tally with the balance of the general ledger control account. It contains detailed information on various transactions such as projects, project costs, payments relative to the said projects, and the like. It aids in keeping accurate records and facilitates monitoring the Authority's transactions; hence, it must be prepared and regularly updated.
- 7.5. Comparison between the Subsidiary Ledgers (SL) and General Ledger (GL) balances of *Due to NGAs* account disclosed a variance of P70.454 million as of December 31, 2022, as shown in Table 11.

Table 11. Variance Between GL and SL Balances in CAAP HO

Balance as of December 31, 2022	Amount
Per GL	P 1,690,545,771
Per SLs	1,620,091,384
	P 70,454,387

- 7.6. The noted variance was mainly due to the following unsubstantiated transactions, which were recorded in the GL but without SLs:

Table 12. List of Unsubstantiated Transactions

Location	Particulars	Amount	Remarks
CAAP-HO	Prior years' ATO account balances transferred to CAAP in CY 2008	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
	Funds from DOTr for the salaries of employees assigned at Cotabato Airport under ARMM	2,741,011	
AC X	Funds received from DOTr for land titling in Laguindingan, Misamis Oriental	2,725,510	Not supported with any proof of binding contract/memorandum agreement with DOTr
		P 60,939,110	

- 7.7. The above-unsubstantiated transactions, which have been long outstanding and non-moving for more than 10 years, were embodied in the CYs 2019-2021 audit reports.
- 7.8. Inquiry with the CAAP-HO Accounting Division (AD) disclosed that in CY 2021, they were able to coordinate with the Department of Transportation (DOTr) regarding the unsubstantiated balances. DOTr advised CAAP to provide certifications that the projects relative to the funds transferred to the then Air Transportation Office (ATO) for the two projects mentioned above were

completed to support the processing of the liquidation. The said certifications shall be prepared by the Area Center Accountant and signed by the Area Center Manager, who has jurisdiction over the airports where the projects are situated. Afterward, it shall be submitted to the CAAP-HO Accountant, who would then collate and prepare Certification that the Director General would sign. However, as of date, the Area Centers have not yet submitted the certifications to the CAAP-HO AD because they were hesitant to sign the certificates since the transactions pertain to ATO transactions which were not duly documented, thus, requiring further verification.

- 7.9. In addition, analysis of CAAP AC X's Financial Statements (FS) as of December 31, 2022, revealed that the AC's *Due to NGAs* account amounting to P2.726 million was not supported with any proof of binding contract/memorandum of agreement evidencing the recognized obligation despite the issuance of AOM 2019 – 009 dated January 31, 2021.
- 7.10. Recent inquiry with the Area Accountant disclosed that the liability was recognized in the books of accounts sometime in 2013 upon the receipt of funds deposited in the LBP account from the DOTr-Project Management Office (PMO), intended for land titling in Laguindingan, Misamis Oriental. She further recalled that the responsibility of the Area Center was only up to the release of funds or issuance of checks for DOTr related to the land titling activities, as the latter agency did not have any branch/office in the area. As to the types of expenses that could be charged to the account, the Accountant could not provide details since they did not have a copy of the needed documents that explicitly provided the guidelines or instructions on utilizing the said funds.
- 7.11. Due to the noted variance between the GL and the SL balances, as well as the existence of the long outstanding, dormant, and unsubstantiated transactions, the Audit Team was not able to verify its validity; thus, the accuracy of the *Due to NGAs* account balance could not be determined.
- 7.12. **We reiterated our prior years' recommendations that Management direct:**
 - a. **CAAP-HO Accounting Division to:**
 - i. **Reconcile the recorded transactions in the GL and the SLs;**
 - ii. **Exert effort to locate the documents related to the ATO account balances of P50.473 million;**
 - iii. **Prepare the necessary adjusting entries, if warranted; and**
 - b. **The AC X Management to coordinate with CAAP-HO or with DOTr to request any proof of binding contract/ memorandum agreement between CAAP and the DOTr for the appropriate utilization of the fund based on the stated purpose; otherwise, cause the immediate return of the fund's balance to the DOTr.**

- 7.13. We further recommended that CAAP-HO coordinate with DOTr and request advice/ alternative solution, considering that the Area Centers are hesitant to issue the required Certifications to support the liquidation due to the absence of documents.
- 7.14. Management commented that the CAAP-HO AD has been exerting efforts to comply with audit recommendations. Moreover, CAAP-HO AD commented during the Exit Conference that they would coordinate again with the concerned Area Centers about the issuance of Certifications.
- 7.15. In addition, AC X Management commented that a request letter via email had been sent to DOTr as regards the provision of proof of binding contract/ memorandum of agreement between CAAP and the DOTr for the utilization and purpose of the LBP account.
- 7.16. The Audit Team will monitor Management's compliance with the audit recommendations in CY 2023.
8. The consolidated balance of the *Other Receivable (OR)* account amounting to P58.868 million was doubtful due to a) the existence of unliquidated cash advances totaling P28.676 million; b) unadjusted prior years' receivable balances amounting to P19.947 million; and c) unsubstantiated receivable balances amounting to P7.342 million.
- 8.1. This is a reiteration of the audit observation embodied in CYs 2019-2021 AARs.
- 8.2. Paragraph 15 of Philippine Accounting Standards (PAS 1), *Presentation of Financial Statements* requires the fair presentation of an entity's financial position, financial performance, and cash flows.
- 8.3. The *Other Receivable* account had a consolidated balance of P58.868 million as of December 31, 2022, broken down as follows:

Table 13. Breakdown of OR as of December 31, 2022

Particulars	Amount
Unliquidated cash advances of retired, resigned, and separated employees	P 28,502,463
Unadjusted receivable balances (2016-2019) relative to the daily subsistence allowances (DSA) of flight inspectors	19,947,419
Unsubstantiated balance	7,342,215
Area Centers' balances	1,232,698
Undeposited collections of former collecting officers	894,417
Unliquidated cash advances (DSA) of flight inspectors	514,221
Unliquidated cash advances of OGCC lawyers	434,215
Balance, December 31, 2022	P 58,867,648

- 8.4. Audit disclosed that the account balance of P58.868 million is doubtful due to the following observations:
- a) ***Existence of unliquidated cash advances of Accountable Officers, no longer connected with the Authority, in the total amount of P28.676 million***
- 8.5. Verification of records revealed substantial outstanding receivable balances from cash advances of retired, resigned, and separated officers and employees that remain unliquidated as of December 31, 2022, in the total amount of P28.676 million. The details are shown in Table 14.

**Table 14. Summary of Unliquidated Cash Advances
as of December 31, 2022**

Particulars	Amount
Confidential Funds	P 20,000,000
Local and Foreign Travels	P 5,989,650
Former Special Disbursing Officers	2,192,103
Former Petty Cash Custodians	320,710
DSA of flight inspectors	173,777
	P 28,676,240

- 8.6. The Confidential Funds pertain to the cash advances (CAs) granted to two former Director Generals of the Authority in CYs 2009-2011 amounting to P10 million each, subject to the issuance of a Credit Notice Advice for its liquidation in compliance with the provisions of *COA-Circular 2003-002 dated July 30, 2003*, re: *Audit and Liquidation of Intelligence and Confidential Funds for National and Corporate Sectors*.
- 8.7. Inquiry revealed that the Intelligence and Confidential Fund Audit Unit (ICFAU), Commission on Audit, had issued two Audit Observation Memoranda (AOMs) regarding the deficiencies/errors in the liquidation documents previously submitted by CAAP. On the first AOM, the Management resubmitted the liquidation report to the ICFAU on January 18, 2023. On the second AOM, the CAAP-HO AD has yet to submit its comments/reply with the required documents.
- 8.8. The CAAP-HO AD also claimed that the chance of recovery or collection of accounts on unliquidated cash advances of retired, resigned, and separated officers and employees is remote due to the unavailability of supporting documents and dormancy of the accounts ranging from 10 to 27 years.
- 8.9. Despite the consistent reminders made by the Audit Team, the CAAP-HO AD issued the demand letters to Accountable Officers with unliquidated cash advances for DSA only on April 13, 2023.
- 8.10. The non-liquidation/non-recovery of these long-outstanding and dormant receivables deprived the Authority of the funds that could have been used in its operations. Also, the accuracy and reliability of the balance of the Other Receivables account could not be ascertained due to the unavailability of pertinent documents.

8.11. We reiterated our prior years' recommendations, with modification, that Management instruct the CAAP-HO AD to:

- a. Expedite the preparation of Management's comments/reply to the AOM issued by ICFAU and submit the documents required therein to facilitate the liquidation of the former DG's cash advance;
- b. Send demand letters to retired, resigned, and separated accountable officers to settle unliquidated cash advances, including the unsettled accountabilities of flight inspectors;
- c. Exhaust all means to locate pertinent records of these unliquidated cash advances and review/evaluate their collectability; and
- d. Request an authority to write off dormant accounts, if warranted, in accordance with the procedures prescribed under COA Circular No. 2016-005.

8.12. Management commented that the CAAP-HO AD had been trying to locate the pertinent documents to support the liquidation of the former DG's cash advances as required in the AOM issued by ICFAU.

8.13. The CAAP-HO AD committed to prepare and issue demand letters on unliquidated cash advances of Accountable Officers who were no longer connected to CAAP. They would also locate the pertinent records and evaluate the collectability of the same to support the request for the write-off of dormant accounts.

b) Unadjusted receivable balances (2016-2019) amounting to P19.947 million pertaining to Daily Subsistence Allowances (DSA) relative to flight inspections/certifications which did not take place or were canceled.

8.14. Airline operators pay CAAP the pertinent certification and administrative fees, including the travel-related expenses and DSA of flight inspectors. The Disbursement Section of the CAAP-HO AD admitted that not all of the flight inspection/certification requests in CYs 2016-2019 materialized. The flight inspections/certification did not occur or were canceled, yet, the receivables previously recorded in the books of accounts when such requests were made were not derecognized/adjusted, thus rendering the balance of the OR unreliable.

8.15. The CAAP-HO AD requested the assistance of the Flight Standards Inspectorate Service (FSIS) and other originating offices to locate and retrieve the documents necessary to substantiate the cancellation of flight inspection/certifications in CYs 2016-2019.

8.16. Since 2020, the CAAP-HO AD discontinued setting up receivables and recognizing income upon issuance of the billings to airline operators. However, the receipt of advance payment from airline operators before the conduct of flight inspection/certification by CAAP was directly recognized as income and recorded under the *Other Service Income* account instead of the *Other*

Unearned Revenue/Income account. The CAAP-HO AD opted to retain the erroneous manner of recording income due to foreseen difficulties in reconciliation compounded with the voluminous transactions and lack of regular monitoring on the completion of flight inspections/certifications.

8.17. Nonetheless, the Audit Team reiterated that directly recognizing the advance payments from airline operators before service had been rendered, i.e., the conduct of flight inspection/certification as income, is an apparent deviation from the provisions of PFRS 15, *Revenue from Contracts with Customers*.

8.18. We reiterated our prior years' recommendations, with modification, that Management instruct the CAAP-HO AD to:

- a. Exhaust all means to locate the necessary documents to support the cancellation of flight inspections/certification totaling P19.947 million and prepare the necessary adjustments in the books of accounts;**
- b. Record the advance payment for DSA and other fees and charges as *Other Unearned Revenue/Income* upon receipt from airline operators, and debit the same account when CAAP has completed the conduct of flight inspection/certification.**

8.19. Management commented that the CAAP-HO AD already requested the assistance of the Flight Standards Inspectorate Service (FSIS) and Aerodrome and Air Navigation Safety Oversight Office (ANSOO) for the pertinent documents to support the cancellation of prior years' flight inspections/certifications.

8.20. Furthermore, the CAAP-HO AD committed to initially record the advance payments of DSA in the *Other Unearned Revenue/Income* account and reverse the same once the conduct of flight inspection/certification has been completed.

c) *Unsubstantiated balances amounting to P7.342 million*

8.21. The CAAP-HO AD admitted that the account was typically used as a catch-basin for other claims and receivables of the Authority since CY 2011. Though minimal in amount, various claims from overpayments and other payroll-related transactions were likewise lodged in this account. Noticeably, despite previous AOMs issued since 2019 up to the present, CAAP-HO AD still needed to prepare the subsidiary ledger/s that could have facilitated the monitoring of transactions.

8.22. The accumulation of unsubstantiated balances contravened the provisions of Paragraph 15 of PAS 1; thus, the accuracy and reliability of the account balance as of December 31, 2022, could not be ascertained.

8.23. We reiterated our prior years' recommendations, with modification, that Management instruct the CAAP-HO AD to exert efforts to locate the documents to support the unsubstantiated receivables amounting to P7.342 million, identify the details and nature of the transactions, prepare,

and maintain the corresponding subsidiary ledgers, and determine whether these receivables are still collectible.

8.24. Management commented that the CAAP-HO AD committed to locate the documents needed to substantiate the unaccounted receivable balances.

9. The reliability and accuracy of the account balance of the Receivables – Disallowances/Charges account amounting to P97.961 million could not be ascertained due to the variance amounting to P22.648 million between the balances of the General Ledger (GL) and the Subsidiary Ledgers (SLs) in CAAP-HO.

9.1. Philippine Accounting Standard (PAS) 1 *Presentation of Financial Statements* states that “Financial Statements shall present fairly the financial position, financial performance and cash flows of an entity.”

9.2. General Ledger (GL) is the book of final entries containing the totals of special journals and individual journal entries posted in the account. On the other hand, the Subsidiary Ledger (SL) is the book containing the details or breakdown of the balance of the controlling account appearing in the GL. The totals of the SL balances shall be reconciled with their respective control account regularly or at the end of each month.

9.3. Analysis of the Receivables – Disallowances/Charges account in the CAAP-HO disclosed a variance between the GL and SL balances amounting to P22.648 million as of December 31, 2022.

9.4. Audit noted that the variance could be attributed to the following:

- a. A substantial amount of the GL balance as of December 31, 2022, was carried-forward to the books of CAAP in 2008 from its predecessor, the Air Transportation Office. Per interview, the Accountant claimed that the Accounting Division did not have any breakdown of the account; thus, they could not create an SL account to reflect this balance.
- b. The Audit Team noted various instances wherein the accountant did not and could not correctly identify what specific disallowance or charge the deductions from terminal leave benefits of employees totaling P46,355 were for. As such, the accountant directly posted to the GL the amounts but not to any SL.
- c. Several accounting errors and misstatements in recording salary deductions and settlements for disallowances totaling P1.683 million were also discovered. Details are shown in Table 15.

Table 15. Summary of Erroneous Recording of Salary Deductions and Settlements in Receivables-Disallowances/Charges Account

Particular	The amount credited to the account			Variance (GL vs. SL)	Overstatement (Under- statement)
	Per GL	Per SL	Per Audit		
The settlement refers to an ND recorded in the Area Center, hence the settlement should be transferred to the books of the AC. Should be credited to the Due from Regional/Branch Offices account.	P 2,000	P 0	P 0	P 2,000	(P 2,000)
These settlements refer to NDs under appeal. Should be credited to the Trust Liabilities – Disallowances/Charges account.	2,050,900	0	0	2,050,900	(2,050,900)
The Settlement refers to an ND which are already final and executory. The Accountant credited to the Other Payables account instead of the Receivables-Disallowances/ Charges account.	0	369,593	369,593	369,593	369,593
					P (1,683,307)

- 9.5. The non-maintenance of proper and accurate records cast doubt on the reliability and accuracy of the balance of the account.
- 9.6. In addition, the erroneous recording/posting of transactions reflected the carefree attitude of the Accounting Division in maintaining its SLs and the lack of awareness of the Accountants on when and where to record settlements, depending on whether the settlement pertains to a disallowance which had already been rendered final and executory or is still under appeal.
- 9.7. It likewise resulted in the understatement of the Receivables – Disallowances/Charges and Trust Liabilities - Disallowances/Charges accounts by P1.683 million and P2.051 million, respectively, and the overstatement of the Other Payables and the Due from Regional/Branch Offices accounts by P369,593 and P2,000, respectively.
- 9.8. **We recommended that Management instruct the Chief Accountant to:**
 - a. **Verify the cause/s of the variance noted, reconcile the same, and make the necessary adjusting entry to correct its financial records;**
 - b. **Account for all the Authority's disallowances/suspensions and charges, including the respective settlements; and**

c. Orient its Accountants on the proper recording of salary deductions and settlements.

- 9.9. Management said they would seek advice from COA on derecognizing balances in the account, particularly those transferred from the then ATO since no financial records nor supporting documents were turned over to CAAP.
- 9.10. As a rejoinder, the Audit Team informed Management that under Section 24 of COA Circular No. 2009-006 dated September 15, 2009, recorded disallowances that have been rendered final and executory shall be dropped from the books of accounts **only upon settlement of the Notice of Disallowance/Notice of Charge (ND/NC)**. Hence, the balance could only be derecognized with evidence to support the settlement.
- 10. The existence, completeness, and accuracy of the Due from National Government Agencies (NGAs) account amounting to P70.503 million could not be relied upon due to the continuous non-reconciliation of the variance between the records of CAAP-HO and the Procurement Services of the Department of Budget and Management (PS-DBM) amounting to P11.202 million.**
- 10.1. Philippine Accounting Standard (PAS) 1 states that “financial statements shall fairly present an entity's financial position, financial performance, and cash flows. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the standards.
- 10.2. The Conceptual Framework for Financial Reporting states that verifiability is a qualitative characteristic that enhances the usefulness of the information and helps assure users that the information faithfully represents the economic phenomena it purports to represent. Verily, fund transfers, as recorded in the books of accounts, should be regularly monitored and verified as to their existence, completeness, and accuracy and should be reconciled between the balances of the source and implementing government entities.
- 10.3. Further, Philippine Financial Reporting Standard (PFRS) 9 on *Financial Instruments* states that an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.
- 10.4. The Due from NGAs account had a balance of P70.503 million as of December 31, 2022. Details are shown in Table 16:

**Table 16. Schedule of the Due from NGAs account
as of December 31, 2022**

Accounts	Amount
PS-DBM (CAAP-HO)	P 13,822,074
Carry-forward balance from the Air Transportation Office (ATO)	24,168,716
Balance from CAAP Area Centers	32,512,382
	P 70,503,172

- 10.5. The balance with the PS-DBM pertains to fund transfers of CAAP to the former to purchase common-use supplies and equipment. Meanwhile, relative to the carry-forward balance from the then ATO amounting to P24.169 million, the Accounting Division did not have any document to support the balance, which had remained dormant as of December 31, 2022.
- 10.6. Comparison of the balances between the Subsidiary Ledger (SL) of the PS-DBM in the books of accounts of CAAP-HO amounting to P13.822 million and the Statement of Account (SoA) from the PS-DBM amounting to P2.620 million disclosed a variance of P11.202 million as of December 31, 2022. The Audit Team observed that the Accounting Division did not conduct a reconciliation of accounts contrary to the above-mentioned COA Circular, which requires fund transfers to be regularly monitored and verified with implementing agencies. We emphasized that this had been an ongoing issue and that similar Audit Observation Memoranda (AOMs) were already issued since 2019. Over the years, the Accounting Division had, year after year, committed to reconciling these balances; however, no substantial action had been undertaken to address the issue.
- 10.7. The initial variance noted by the Audit Team amounted to P17.737 million as of December 31, 2018. This amount was only reduced pursuant to prior years' audit recommendations brought about by the reconciliation conducted by the Audit Team. The details of the variance beginning 2018 are shown in Table 17.

Table 17. Variance Between Accounting Records and SoA from PS-DBM Since 2018

Particulars	Amount
Variance 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 in 2019 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) as observed in AOM No. 2022-006 (2021) dated March 9, 2022	124,179
Erroneous recording of deliveries in CY 2020 (JEV 2020-01-038 - DR No. M20-000083 recorded at P39,058.24 instead of P38,105.60) as observed in AOM No. 2022-006 (2021) dated March 9, 2022	953
Adjustments made by the Accounting Division in 2022 as recommended by the Audit Team	(953)
Erroneous recording of transactions in 2022 as contained in AOM No. 2023-010 dated March 27, 2023	19,938,760
Adjustments made by the Accounting Division in response to AOM No. 2023-010 dated March 27, 2023	(20,408,440)
Variance as of December 31, 2022	P 11,202,321

- 10.8. The Accounting Division asserted that they have assigned personnel to reconcile the account.
- 10.9. The continuous occurrence of the issues above shows the lack of a clear and established process within the Accounting Division in conducting a regular and periodic verification, analysis, validation, and reconciliation of fund transfers as required under COA Circular No. 2016-005, a process which, when performed, could easily identify and address the above issues. Likewise, it casts doubt on whether the Accounting Division is serious in its yearly commitment to resolve the above-mentioned discrepancy.
- 10.10. Meanwhile, relative to the carry-forward balance from the then ATO amounting to P24.169 million, considering the absence of documents to support the balance and the length of time this balance had remained dormant, Management may endeavor to request this balance for write-off pursuant to COA Circular No. 2016-005 dated December 19, 2016.
- 10.11. We reiterated our prior years' recommendations, with modification, and Management agreed to instruct:**
- a. The Chief Accountant to:**
 - i. Take its duties and responsibilities seriously to monitor the fund transfers made by CAAP by ensuring that regular monitoring and reconciliation of accounts are being conducted, moving forward, in accordance with COA Circular 2016-005;**
 - ii. Analyze the erroneous posting/entries observed by the Audit Team and prepare the necessary JEVs to correct the misstatements thereafter.**
 - b. The Finance Manager III, Finance Department, to:**
 - i. Facilitate the coordination with the PS-DBM to reconcile records between the two offices, as necessary; and**
 - ii. To designate personnel in the Accounting Division who will perform the reconciliation of accounts between the books of CAAP and the PS-DBM, and report the result of the said reconciliation to the Finance Department at regular intervals, to ensure that reconciliation is indeed being performed along with the preparation of JEVs to record any adjusting entries if warranted.**
- 10.12. Management likewise commented that they would consider requesting the carry-forward balance from the ATO for write-off.

11. Offsetting of income and expenses and non-recording of the transferred assets from AEROTHAI understated the *Airport Equipment and/or Communication Equipment* by at least P23.637 million, and the related depreciation, repairs and maintenance expense accounts by undetermined amount, thus, contrary to the provisions of PAS 1, affecting the fair presentation of the Financial Statements.

11.1. Paragraph 15 of Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements* requires the fair presentation of an entity's financial position, financial performance, and cash flows.

11.2. Paragraph Nos. 32 and 33 of PAS 1 require that "an entity shall not offset assets and liabilities or income and expenses unless required or permitted by an IFRS. An entity reports separately both assets and liabilities and income and expenses. Offsetting xxx detracts from the ability of users to understand the transactions, other events, and conditions that have occurred and to assess the entity's future cash flows. Xxx"

11.3. In 2001, Air Transportation Office (ATO), now CAAP, and AEROTHAI entered into an Agreement for air/ground Very High Frequency (VHF) data link ground stations in the Philippines installation, maintenance, and operation. The CAAP's Air Navigation Service (ANS) operates and maintains the VHF data link ground stations in conjunction with AEROTHAI's Network Management and Data Processing Systems (NMDPS) and Network Operations Center (NOC), both located in Bangkok, Thailand.

11.4. Section 5 of the 2001 Agreement enumerated the responsibilities of AEROTHAI, including the following:

11.5. AEROTHAI Responsibilities:

"xxx

5.) Submit quarterly communication traffic report to ATO that shall be used in evaluating the current and reasonable fees to the latter for equipment cost of \$60,000.00 per unit. When the stations have accumulated \$180,000.00 in total revenue, AEROTHAI will transfer ownership of one station to ATO. As each additional \$180,000.00 in total revenues is generated, additional stations will be transferred to ATO. The ATO's concession privilege fee will escalate to more or less \$60,000.00 per year."

11.6. In its letter to ATO dated October 22, 2007, regarding the transfer of ownership of Remote Ground Stations (RGSs) pursuant to clause five of the Agreement for the Maintenance of VHF Air-Ground Data Link Stations, AEROTHAI informed that:

"ATO having fully paid for the same, AEROTHAI transfers all of its rights, title, and interest in the following RGS at the following locations to ATO:

- 1. MNL located at Ninoy Aquino International Airport, Manila*
- 2. CEB located in Mactan-Cebu International Airport, Cebu*
- 3. DVO located at the Francisco Bangoy International Airport, Davao*

4. *LAO located in the Laoag International Airport, Laoag*
5. *PPS located at Puerto Princesa Airport, Puerto Princesa*

- 11.7. ATO, in its letter to AEROTHAI dated February 12, 2008, acknowledged the receipt of the equipment and assured the latter that it shall continue to operate and maintain the RGS Links under the terms and conditions of the existing Agreements.
- 11.8. On July 14, 2009, due to the abolition of ATO and the creation of CAAP, an amendment to the Agreement was made wherein one of the clauses cited is the transfer of ownership of the five RGSs to CAAP on October 22, 2007, except for Clark RGS at DMIA Facilities Complex.
- 11.9. In September 2012, RGSs in Manila, Mactan, and Davao were upgraded to Multi-Service Ground Stations (MSGSSs). The decommissioned RGSs equipment was rehabilitated and installed in Zamboanga. At present, CAAP has seven existing MSGSSs/RGSs in the country.
- 11.10. In 2022, the Audit Team recommended revisiting the Agreement's provisions and updating the list of the MSGSSs/RGSs transferred to CAAP. On August 30, 2022, a meeting was held between the parties' representatives to discuss the preparation of the revised draft Agreement by AEROTHAI. As of this date, the Audit Team has yet to receive a copy of the amended agreement.
- 11.11. Further, the Audit Team gathered documents to support the transfer of the equipment. This includes PowerPoint material on VHF Data Link in the Philippines dated February 2008 that shows the Growth Revenue of AOC in the Philippines from USD50,000 to USD450,000 since the start of operation in February 2002 through 2007. The material also disclosed that the installment payments were completed in February 2006 for three RGSs (MNL, CEB, DVO), while those of the two RGSs (PPS, LAO) were completed in May 2007. However, there was no information on the actual cost of the RGSs.
- 11.12. Review of AEROTHAI's report on CAAP's [Very High-Frequency Data Link] VDL Revenue from May 2007 to February 2016 showed that from May 2007 to November 2014, CAAP's revenue share amounted to USD1.541 million, while in November 2014, a lump-sum amount of USD708,289 was deducted from the revenue share as of that period, thus, showing a balance of USD 0.832 million.

**Table 18. Summary of CAAP's Revenue Share
from May 2007 to November 2014**

CAAP's Very High-Frequency Data Link (VDL) Revenue (May 2007 to November 2014)	\$ 1,540,704
Lump-sum deduction/expenses	708,290
Revenue share, November 2014	\$ 832,414

- 11.13. Examination of documents disclosed that lump-sum deduction pertains to the following:

Table 19. Breakdown of Deductions/Expenses Charged against CAAP's Revenue Shares

Item	Description	Date/Duration	Amount
Revenue share remitted to CAAP			
1	Accumulated revenue share Transferred to CAAP	October 2008	\$ 150,000
2	Accumulated revenue share Transferred to CAAP	March 2010	257,313
			\$ 407,313
Cost of equipment's upgrade to MSGS			
3	Purchase of MSGS Equipment	September 2012	\$ 220,000
4	Tariff of Import MSGS into the Philippines	October 2012	28,819
			\$ 248,819
Other expenses/charges			
5	RGS-VDLM2 Training at AEROTHAI's Head Office	January 11-14, 2009	\$ 7,383
6	Commission of Cancelled Air Ticket	July 2010	170
7	CANSO/ANSP Conference in Bangkok, Thailand	June 9-10, 2011	12,347
8	ICPM Conference in Khao Yai, Thailand	May 2-4, 2012	5,569
9	ACM Conference in Singapore	July 17-20, 2012	10,478
10	RGS/MSGs Training at AEROTHAI's Head Office	May 27-31, 2013	16,211
			\$ 52,158
			\$ 708,290

- 11.14. Verification revealed that since the inception of the Agreement, revenue shares remitted by AEROTHAI to CAAP were recorded net of all the related costs and expenses. Thus, the acquisition cost of the transferred RGSs from AEROTHAI to the then ATO in October 2007, the subsequent upgrades of RGSs to MSGSs in September 2012, and all other expenses, i.e., training cost, maintenance fees, and depreciation expenses remain unrecognized in the CAAP's books of accounts.
- 11.15. The Audit Team computed the amount of unrecorded assets in the books based on the estimated acquisition cost of equipment by converting the available data using the applicable BSP foreign exchange rates in CYs 2009-2013. Results showed the understatement of the *Airport Equipment and/or Communication Equipment* by at least P23.637 million.
- 11.16. Meanwhile, the Audit Team could not determine the accumulated depreciation since the estimated useful lives and residual values of these assets still need to be reviewed and adjusted accordingly by the CAAP-HO AD to consider the significant change in the valuation of assets due to the upgrade of RGSs to MSGSs in 2012. Likewise, the CAAP-HO AD has yet to gather the pertinent documents to determine the related capitalizable costs, such as major repairs and maintenance expenses of these assets.

11.17. CAAP's practice of recording revenues net of the related charges/expenses is contrary to the provision of PAS 1, which specifically prohibits offsetting of income and expenses. Similarly, the non-recognition of the transferred assets from AEROTHAI affects the fair presentation of pertinent accounts in the financial statements.

11.18. We recommended that Management instruct the CAAP-HO AD to:

- a. Exert diligent effort to locate the documents supporting the actual cost of the existing RGSs/MSGs and the related capitalizable expenses;**
- b. Prepare the necessary adjusting entry/ies to record in CAAP's books of accounts the transferred assets from AEROTHAI and all other related expenses and submit the JEV to the Audit Team for further evaluation;**
- c. Submit an updated/revised Lapsing Schedule of Communication and/or Airport Equipment showing the cost, additions/deductions, and depreciation of the existing RGSs/MSGs;**
- d. Record the full amount of income earned and expenses incurred in the books of accounts. Refrain from offsetting income and expenses/charges except when an accounting standard permits; and**
- e. Provide the Audit Team with a copy of the revised/amended Agreement.**

11.19. Management commented that in coordination with the Air Navigation Service, the CAAP-HO AD will revisit the reconciliation records with AEROTHAI and look for other documents supporting the pertinent transactions.

11.20. Likewise, the CAAP-HO AD committed to submit an updated/revised Lapsing Schedule as soon as they prepared the adjusting entries in the books of accounts.

11.21. Further, Management commented that the new Agreement for the Operation and Maintenance of VHF-Air Ground Data Link Stations Sites in the Philippines with AEROTHAI and Collins Aerospace was already in the review phase. They committed to provide the Audit Team with a copy of the Agreement to the Audit Team once finalized and signed.

12. Non-implementation of the seven per cent Profit-Sharing (PS) scheme relative to the extension of the Lease/Rental Payment Holiday in CY 2021, resulted in an understatement by an undetermined amount of the *Rent/Lease Income* and the related *Operating Lease Receivable (OLR)* account.

12.1. In line with the objective of the National Government to assist all stakeholders affected by the COVID-19 pandemic, the CAAP Board of Directors (BOD) approved the extension of the Lease/Rental Payment Holiday from January 1,

2021, until December 31, 2021, under CAAP Board Resolution No. 2021-27. Qualified concessionaires need not pay the monthly rental fee; however, CAAP implemented a profit-sharing scheme to generate revenue for the Authority.

- 12.2. Part V. Profit Sharing of the *Implementing Rules and Regulations* (IRR) regarding the *Extension of the Lease/Rental Payment Holiday from January to December 31, 2021, for all Concessionaires* dated September 3, 2021 states that:

“Seven per cent of the concessionaire’s Net Monthly Income shall be declared and collected by the CAAP, based on the concessionaire’s submitted Accountant Audited Financial Statement (AFS) for 2021, forwarded to the Airport Concession-in-charge (ACIC) on the second week of January 2022 for the issuance of billing of the respective airport/areas.”

- 12.3. Of the 437 approved applications, 182 did not avail of the extended assistance program. Inquiry disclosed that some concessionaires, particularly those engaged in large-scale operations and/or diversified business, opted not to avail of the rental holiday because seven per cent of their Net income would be substantially higher than the rental fees. Hence, they paid the full-year rental instead. Others had no operations, or the Contract of Lease for Concession (CLC) was not renewed.
- 12.4. Based on the IRR, the concessionaires should submit their 2021 AFS to the ACIC in the second week of January 2022. However, more than one year after the deadline for the submission thereof, verification revealed that out of the 255 concessionaires who availed of the Rental Holiday, only 82 submitted the AFS.
- 12.5. The CAAP-HO BDD and some of the ACs’ Accounting/Billing Units admitted their lapses for the non-implementation of the profit-sharing scheme. Likewise, the CAAP-HO BDD and the ACICs did not monitor nor follow up on the quarterly submission of FS and the AFSs; hence, the Accounting/Billing units could not issue the billing statements. This showed that CAAP did not strictly implement the IRR to extend the Lease/Rental Holiday.
- 12.6. The non-implementation of the PS scheme understated the *Rent/Lease Income* and related *Operating Lease Receivable* account by an undetermined amount for the period ended December 31, 2022.

12.7. We recommended that Management:

- a. **Instruct the CAAP-HO Corporate Planning Office, in coordination with CAAP-HO BDD and ACIC, to revisit the provisions of the IRR to monitor and ensure that the provisions thereof are strictly enforced/implemented;**
- b. **Require the ACICs to follow up on the submission of 2021 AFS by the 173 concessionaires who availed of the 2021 Rental/Lease Holiday;**

- c. **Direct the Accounting/Billing Units in CAAP-HO and ACs to expedite preparing and issuing billing statements for CAAP's seven per cent profit share and pursue the collection thereof; and**
- d. **Henceforth, ensure that policies and guidelines issued by CAAP be strictly implemented and monitored.**

12.8. Management commented that CAAP-HO already issued a memorandum to all the ACICs reiterating the submission of 2021 Audited Financial Statements as the basis of billing the seven per cent profit share. Further, CAAP-HO BDD clarified that should these concessionaires still fail to submit the same, their total monthly rental fee in 2021, as per the lease contract, would be billed instead.

12.9. The CAAP-HO AD and Billing Units in ACs were likewise instructed to expedite the preparation and issuance of billing statements.

13. The accuracy and completeness of the balance of the Transportation System Fees account amounting to P1.346 billion could not be ascertained due to the absence of clear-cut policy on the recording, reconciliation and monitoring of Domestic Passenger Service Charge (DPSC) collected by Airline Carriers. Moreover, DPSC was recorded on cash basis contrary to the requirement of PAS 1.

13.1. This is a reiteration of the audit observation embodied in CY 2020-2021 AARs.

13.2. Philippine Accounting Standard (PAS) 1 requires that an entity prepare its financial statements, except for cash flow information, using the accrual basis of accounting. Accrual basis of accounting provides that the transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Hence, transactions and events are recorded in the books of accounts in the periods they relate to.

13.3. CAAP MC No. 022-17, Implementing Guidelines for the Integration of Domestic Passenger Service Charge (DPSC) at the Point of Sale of Airline Ticket, was adopted by the Area Centers in 2017. The airline companies served as the collecting agent of "terminal fees" and were required to remit to CAAP under specific terms and conditions provided for in the said circular.

13.4. Items 6.1 of MC No. 022-17, series of 2017 provides:

"6.1 The Air Carrier shall be responsible for all DPSC collected from the time of Collection up to Remittance to CAAP.

13.5. DPSC refers to the terminal fee imposed by CAAP on Departing Passengers presently pegged at P200.00, P150.00, P100.00, and P50.00, depending on the classification of the terminal. For airports under Area Center XI, a DPSC of P200.00 is charged at the Davao International Airport and P150.00 for both the General Santos City International and the Cotabato Airports. It is recorded in the books of accounts under Income from Transportation System Fees.

- 13.6. Review of accounting records and interviews with concerned personnel disclosed that the Air Carriers remitted directly to the CAAP-HO the amount of DPSC reflected in the DPSC Remittance Report. This report includes the details of remittances such as the Period Covered, Airport, Flight date, Total Pax Load, Exempted Pax, Amount, including the Names of Passengers and their classification (Exemption/Infant/Flight & Extra Crew/Transit), Flight Date and Flight Number.
- 13.7. To inform the ACs of the remittances received, CAAP-HO Accounting Division (AD) prepared and sent the Summary of DPSC Collection to the Area Accountant as the basis for recording the same in the books of accounts. The Remittance Summary, however, merely showed the Name of the Airline, OR date, OR/AR No., Particulars showing the DPSC collection period, Area Code, Net amount, output tax, Service Charge, Due to BIR and Due from HO.
- 13.8. Verification by the Audit Teams revealed that CAAP recognized income from DPSC in its books of accounts on cash basis, that is, recording it only upon receipt of the remittance from airlines which is contrary to the requirements of PAS 1. Also, the Authority recorded the amount of income based on the data reflected on the DPSC Remittance Report without further validating its accuracy.
- 13.9. Inquiry with the personnel in charge of the DPSC remittances revealed that they received the Remittances Report in advance even though collections have not been remitted yet. Therefore, an accrual could have been made.
- 13.10. In the analysis of Transportation System Fees account, the Audit Teams in ACs VI, XI and XII noted that there was no reconciliation made between the ACs' data on passengers flown vis-à-vis the Airline Carrier's remittances due to the absence of a clear-cut policy on the recording, reconciliation and monitoring of DPSCs collected by airline companies. CAAP did not prescribe a specific document or report to be prepared by all airport personnel to record the complete details of passengers enplaned for control/monitoring purposes.
- 13.11. Examination of various documents that could have been used to monitor the DPSC collected by airline carriers disclosed that Area Centers (ACs) maintained varied reports. Many ACs prepared the Flight Monitoring Report which contains, among others, the Date, Flight Particulars, Aircraft particulars, Passengers Traffic: Number of arriving Passengers whether Regular, Infant, Extra Crew, Deadhead and Number of Departing Passengers booked, Regular, Infant, DPSC Exempt Deadhead, signed by the pilots or the airline agent. Some prepared the Summary of Outgoing Passengers for Domestic Flights, Terminal Fee Checklist showing the total number of revenue passengers, Control Sheet Domestic Flights, and Tally sheets showing the date, flight number, total number of passengers. These documents were either signed or certified by the airline representatives. Others have Teller's Daily Accountability Reports, Summary of Terminal Fee Reports, Summary of Aircraft passenger and cargo movement, and Terminal Fee Control Sheets showing the number of paying and non-paying passengers.

13.12. Although the ACs prepared the abovementioned reports, reconciliation of data to verify the accuracy and completeness of the remittances received was not done. In some ACs, although they have the available information, the CAAP-HO provided them with the Summary of DPSC Collection, but not the copy of the DPSC Remittance Report submitted by the airline companies. While in other ACs, they obtained copies of the DPSC Remittance Report, however the information contained in the documents they have were not complete nor detailed enough for reconciliation with airline records.

13.13. This document could have been used to record CAAP's income from DPSC, reconcile with the Remittance Report submitted by the airline companies and validate the accuracy and completeness of their remittances.

13.14. Due to the abovementioned current practice of CAAP, the accuracy and completeness of the balances of Transportation System Fees, Accounts Receivables, Output Tax, Other Financial Charges and Due to Bureau of Internal Revenue accounts could not be ascertained.

13.15. We reiterated our prior years' recommendations, with modification, that:

- a. For CAAP-HO Accounting Division and all AC Accountants, ensure that accrual basis of accounting is used in recognizing income;**
- b. For CAAP HO – Corporate Planning Office (CorPlan):**
 - i. Issue guidelines prescribing the following:**
 - **Format of reports to be prepared and maintained by all ACs that would facilitate the recording of accrued income as well as the monitoring of paying and exempt passengers. At a minimum, the documents must show the following information: Airport/location, Airline, Flight date and number, and number of passengers according to classification. The reports should be signed by duly authorized CAAP personnel and acknowledged/certified by the pilots or airline company representatives; and**
 - **Specify the office responsible, the steps to be done to reconcile regularly the AC records vis-à-vis the Airline companies' DPSC Remittance Report, and the actions to be taken whenever a variance is noted.**
- c. For CAAP-HO Accounting Division to provide all ACs with a copy of the Airline companies' DPSC Remittance Report together with the Summary of DPSC Collection, to facilitate the reconciliation of CAAP and airline records, and validation of the accuracy and completeness of the remittances received;**

- d. For AC VI to:
 - i. **Reconcile the Air Carriers' remittance reports with the Area Center's computation of the total DPSC based on the Summary of Outgoing Passengers for Domestic Flight DPSC reported monthly; and**
 - ii. **Report to the CAAP-HO the result of reconciliation.**
- e. **For AC XI to strictly monitor the DPSC income and remittances from the Air Carriers by comparing the actual number of departing passengers upon boarding for domestic flights based on the Flight Data Summary against the DPSC Remittance Summary and coordinate with CAAP-HO for any discrepancies;**
- f. For AC XII
 - i. **Direct the AC Accountant to recognize income from 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 ACs and Satellite Airports to ensure the validity and accuracy of the remitted DPSC from air carriers; and**
 - ii. **Coordinate with and, if possible, secure written instruction from CAAP-HO on appropriate mechanisms to address the issues of non-submission of Remittance Reports from Air Carriers and delayed provision of Remittance Summaries, which affects the recording in the books of accounts of ACs.**

13.16. The AC VI Management commented that CAAP Memorandum Circular (MC) No. 022-17, series of 2017, does not specifically indicate the reconciliation process between CAAP and Air Carriers' remittance. The AC Accountant claimed that the MC is under review, and procedures for reconciling and auditing the air carriers are being conceptualized. She also acknowledged that the Area Center is challenged in reconciling the DPSC since CAAP-HO data is inconsistent with the details they include in the airlines' remittance report. In the meantime, pending the reconciliation guidelines, the recording of the revenue from DPSC collection is on status quo.

13.17. The AC XI said they discussed the matter during the Accountants' Conference held on January 23-27, 2023. CAAP-HO is crafting/studying measures to develop internal control procedures to address the concern. The CAAP Chief Financial Officer (CFO) instructed the Revenue Section to check the airline remittances and issue bills for the discrepancies; or conduct an audit of collections as stated in the Memorandum of Agreement (MOA). In addition, a copy of the Audit Observation Memorandum will also be forwarded to CAAP-HO Finance Department for their perusal.

13.18. The AC XII management commented that they would adhere to the audit recommendations and, with the best effort, will try to resolve the inaccuracies encountered through the recommendations by the audit team.

14. The *Construction in Progress* account balance of P677.094 million could not be relied upon due to the inclusion of completed and terminated projects, erroneous capitalization of Input Tax, and the unaccounted amount of P9.491 million recorded in the account.

a) Inclusion of completed and terminated projects resulting in the overstatement of the CIP by P25.591 million and the misstatement of other affected accounts

14.1. This is a reiteration of audit observation as embodied in CY 2021 AAR.

14.2. Paragraph 15 of the Philippine Accounting Standards (PAS) 1 requires the fair presentation of financial statements.

14.3. 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.”

14.4. Furthermore, the *Updated Revised Chart of Accounts for Government Corporations* describes that the “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.”

14.5. Analysis of accounts revealed that the CIP account balances include the cost of completed projects of AC IX totaling P16.599 million and terminated projects of CAAP-HO amounting to P8.991 million that should have been reclassified from CIP to their respective accounts.

14.6. The non-reclassification of CIP to their respective accounts resulted in the overstatement of the CIP account and the understatement of the appropriate accounts by P25.591 million. Likewise, the issue understated the relative Depreciation Expenses and Accumulated Depreciation accounts and overstated the Retained Earnings account by an undetermined amount.

14.7. We reiterate our prior year’s recommendation that that Management direct CAAP-HO Accounting Division (AD) and AC IX Accountants to:

a. Coordinate with CAAP-HO Aerodrome Development & Management Service (ADMS)/AC’s Airport Maintenance Section (AMS) to submit all

documents related to the completed and terminated projects to support the preparation of reclassification/adjusting entries;

- b. Prepare the necessary adjusting entries for the reclassification of completed and terminated projects, including the provision for depreciation; and

14.8. We further recommended that Management direct CAAP-HO AD to regularly update, review, and monitor the subsidiary ledgers of the CIP account, check the latest status of the projects based on the Status Report of CAAP and DOTr Downloaded Projects prepared by ADMS and collate all necessary documents (Certificate of Project Completion, Technical Inspection and Acceptance Report, Accomplishment Report, Certificate of Final Acceptance) to ensure that completed projects are reclassified accordingly.

14.9. Management commented that CAAP-HO AD could not locate the documents related to terminated projects. Further, CAAP-HO AD would coordinate with CAAP-HO ADMS regarding the supporting documents and with CAAP-HO ELS for proper legal action, if necessary.

14.10. Moreover, CAAP-HO AD would require CAAP-HO ADMS to religiously submit the monthly status of all projects, including the pertinent documents for proper recording in the projects' respective SLs, and to prepare the adjusting entries.

14.11. The Management of AC IX committed to comply with the audit recommendations.

b) *Erroneous capitalization of Input Tax resulting in the understatement of CIP account by P11.252 million and over/understatement of other related accounts*

14.12. PAS 16 *Property, Plant, and Equipment* provides that an item of property, plant, and equipment should initially be recorded at cost.

14.13. The *Updated Revised Chart of Accounts for Government Corporations* describes Input Tax as account debited to recognize the amount creditable against the output tax for xxx use in the trade or business for which deduction for depreciation or amortization is allowed under the NIRC, except automobiles, aircraft, and yachts xxx on which a value-added tax had been paid. This account is credited upon offsetting against the output tax and/or set up of creditable input tax and/or adjustments.

14.14. Review of SLs disclosed that some accounts under CIP of CAAP-HO have negative balances totaling P11.252 million, to wit:

Table 20. Accounts Under CIP with Negative Balances

Account Code	Account Title	Amount
1-06-98-020	CIP – Infrastructure assets	P 6,656,271
1-06-98-010	CIP – Land Improvements	3,721,951
1-06-98-030	CIP – Buildings and Other Structures	873,720
		P 11,251,942

14.15. Analysis revealed that the CAAP-HO AD appropriately recorded the progress payments of construction projects to CIP accounts, net of input tax. However, AD erroneously recorded input tax as part of the capitalizable amount upon the completion of the project when CIP accounts were reclassified to the appropriate PE accounts. Input tax should not be capitalized but should be set up as creditable tax, to be deducted from output tax to arrive at the value-added tax payable to the BIR.

14.16. The erroneous recording resulted in the understatement of CIP accounts by P11.252 million and the understatement/overstatement of other related accounts.

14.17. We recommended that Management direct the CAAP-HO AD to:

- a. Review the transactions relative to the projects, prepare the necessary adjusting entries to correct the noted deficiencies, and submit to the Audit Team a copy of the Journal Entry Voucher/s with the complete supporting documents; and
- b. Henceforth, ensure that progress billings are recorded in CAAP books of accounts properly and accurately in accordance with PAS 16 and COA Circular No. 2020-002 dated January 28, 2020.

14.18. Management commented that CAAP-HO AD will adjust a total amount of P5.670 million in CY 2023 while the remaining negative balances of P5.582 million will be adjusted as soon as the account is reconciled. In addition, CAAP-HO AD committed to assign personnel who will monitor the status of all projects for proper recording in the books of accounts.

- c) **Unaccounted amount of P9.491 million recorded under CIP - Other Public Infrastructure of Area Center XI**

14.19. Audit disclosed an unaccounted amount of P9.491 million recorded under the CIP account before CY 2015. This amount was due for verification by the AC XI Accounting Unit.

14.20. We reiterated our prior year's recommendations that Management direct AC XI to:

- a. Verify the nature of costs tagged as Unaccounted Amount in the CIP account and, afterward, apprise the Audit Team of the results; and

b. Effect the necessary adjustments in the books of accounts based on the pertinent supporting documents.

14.21. The General Santos International Airport Management requested to borrow from the Audit Team the original disbursement vouchers for verifying the unaccounted amount in the CIP account.

14.22. The Audit Team has yet to receive the itemized listing of disbursement vouchers to be borrowed by the Management.

15. The balance of the Due to BIR account amounting to P128.624 million, was unreliable due to unaccounted balances amounting to P14.487 million, which is not in accordance with Philippine Accounting Standard (PAS) 1.

15.1. This is a reiteration of the audit observation embodied in CY 2021 AAR.

15.2. 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.

15.3. The Conceptual Framework for Financial Reporting states that verifiability is a qualitative characteristic that enhances the usefulness of the information and helps assure users that the said information faithfully represents the economic phenomena it purports to represent. Verifiability necessitates that balances in a particular account can be verified as to their existence.

15.4. Considering that withholding taxes are remitted to the BIR every month, the balance at year-end amounting to P128.624 million should represent the balance to be remitted to the BIR in January 2023. However, audit disclosed that the amount of taxes withheld by the Authority for December 2022, which should have been remitted to the BIR in January 2023, amounted to P114.137 million, leaving a discrepancy of P14.487 million comprising P10.600 million in CAAP-HO and P3.887 million in Area Center III.

15.5. The Audit Team requested Management to provide information/detailed breakdown of the P14.487 million balance of the account. However, the CAAP-HO Accounting Division (AD) did not provide any. Since the CAAP-HO AD did not maintain any tool or list to keep track of all taxes withheld yet to be remitted to the BIR, the faithful representation of the account was not ascertained.

15.6. The unaccounted balance of P14.487 million might be taxes withheld in previous months or 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 account balance was faithfully represented in the financial statements as required under PAS 1.

15.7. We reiterated our prior year’s recommendation, and Management agreed to direct the Accounting Division in CAAP-HO and Area Center III to reconcile its records to determine the nature and necessary details of the

P14.487 million balance in the Due to BIR account, and after that, remit to the BIR the withholding taxes or prepare the necessary Journal Entry Vouchers to adjust the books of accounts, if warranted.

16. Erroneous computation of Minimum Corporate Income Tax (MCIT) for CY 2020 resulted in the understatement of Other Prepayment account and overstatement of the Deferred Tax Assets account by P7.454 million.

- 16.1. PAS 1 *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. Xxx.”
- 16.2. MCIT is computed at one or two per cent of the Gross Income of an entity.
- 16.3. Effective July 1, 2020, the rate of MCIT was reduced from two per cent to one per cent pursuant to Republic Act No. 11534, otherwise known as the *Corporate Recovery and Tax Incentives for Enterprises Act* (CREATE) and BIR RR No. 5-2021 dated April 8, 2021.
- 16.4. Audit disclosed that the Accountant erroneously computed the MCIT for CY 2020 and CY 2021, resulting in a higher MCIT for both years. The inaccurate calculations resulted in the understatement of the Other Prepayment account and the overstatement of Deferred Tax Assets account by P7.454 million.
- 16.5. We inquired with the Accounting Division as to what caused the erroneous computation but they were not able to provide a reason. Nevertheless, they committed to look into the computation and coordinate with the BIR to correct the unused tax credits, if warranted.
- 16.6. The error highlighted the Accounting Division’s lack of control over its process.
- 16.7. **We recommended and Management agreed to direct the Department Manager III, Finance Department to:**
 - a. **Coordinate with the BIR to correct the unused tax credits of CAAP;**
 - b. **Instruct the Accounting Division to prepare the necessary adjusting entry to correct the erroneous computation and application of tax credits for CY 2020 to CY 2021; and**
 - c. **Ensure that the Accounting Division complies with the directive.**

17. The completeness of the *Cash and Cash Equivalents* account balance of P6.029 billion could not be ascertained due to: a) variance of P13.650 million between Cash in Bank GL and SL balances, b) P1.897 million unaccounted long outstanding balance, c) non-recognition of the transactions relative to the Right of Way (ROW) Fund for the Caticlan Airport Development Project, and d) P1.630 million unrecorded reconciling items.

17.1. PAS 1 re: *Presentation of Financial Statements* states that financial statements shall fairly present an entity's financial position, financial performance, and cash flows. 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 of P13.650 million between the GL and SL balances of various Cash accounts in CAAP-HO and AC IV

17.2. This is a reiteration of the audit observation embodied in CY 2021 AAR.

17.3. Comparison between the GL and SL balances as of December 31, 2022, disclosed a variance of P13.650 million. Details are shown in the following table.

Table 21. GL and SL Balances

Account Title	GL Balance	SL Balances	Variance (Absolute Value)
HO Cash in Bank-Local Currency, Savings Account	P 5,114,533	P (672,625)	P 5,787,158
AC IV Cash in Bank-Local Currency, Current Account	26,670,381	22,390,584	4,279,797
HO Cash in Bank-Local Currency, Current Account	3,843,941,968	3,840,479,364	3,462,604
HO Cash-Collecting Officer	1,326,344	1,446,673	120,329
			P 13,649,888

17.4. In the analysis of accounts and review of documents, we determined some of the factors which caused the variance:

17.4.1 Variance between the balances of the GL and SL of the CAAP-HO *Cash-Collecting Officers* account, as of January 1, 2022, in the amount of P0.653 million. We could not verify the details constituting such variance due to the absence of documents, including SLs for the prior years' transactions. Soft copies of SLs were corrupted, and CAAP-HO Accounting Division (AD) did not maintain backups.

17.4.2 Various entries in the GL did not match the total postings to their respective SLs.

17.4.3 There was no subsidiary ledger for the *Cash In Bank* account, according to the AC IV Accountant, when she took office in 2015.

Hence, she could not identify the breakdown of the beginning balance for each bank account.

17.5. Due to the unreconciled variance, the accuracy and reliability of the account balance could not be ascertained.

17.6. We reiterated our prior year's recommendations, with modifications, and Management agreed to:

a. Direct the CAAP-HO AD and AC IV Accountant to:

i. Reconcile the variances noted between the GL and SL, then effect the necessary adjusting/correcting entries/postings, as warranted;

ii. Maintain a Schedule of SL Balances periodically to compare with the GL balance for early detection of any variances;

iii. We further recommended ensuring an up-to-date backup of all files stored at a secured backup facility; and

b. In addition, we recommended that Management consider digitizing documents CAAP-wide to ensure that copies of important documents are secured and prevented from being lost and to make information more easily accessible, storable, maintainable, and shareable using digital technology.

b) Unaccounted long outstanding balances totaling P1.897 million under Cash-Collecting Officers account in CAAP-Head Office (HO) and Area Center (AC) X

17.7. Unaccounted balances from CAAP-HO, amounting to P270,471, have been outstanding since 2013. Details of these balances could not be verified due to the absence of supporting documents.

17.8. For AC X, the audit disclosed that the accuracy of the *Cash-Collecting Officers* account could not be ascertained due to the unsubstantiated amount of P1.626 million since July 31, 2013. The former accountant did not turn over the documents; hence, CAAP-HO AD could not verify the details of the said amount due to the absence of supporting documents, thus, affecting the reliability of the account balance.

17.9. The current AC X Accountant raised this issue at the yearly Accountant's Conference; however, there had been no action taken by top management/head office.

17.10. The non-action/non-imposition of disciplinary actions by the CAAP-HO against the former AC X Accountant created an impression that erring employees would not be sanctioned, thus, might encourage other erring employees to confidently carry on with their lapses/mistakes without any intention to resolve them.

17.11. We recommended that Management:

- a. Direct the CAAP-HO AD and AC X Accountant to verify the nature of the unaccounted balances and reclass/adjust accordingly to the appropriate accounts, as warranted;**
- b. In AC X:**
 - i. Coordinate with CAAP-HO to supervise and provide feedback on AC X's FS account reconciliations and request measures to facilitate immediate resolutions; and**
 - ii. Coordinate with CAAP-HO Legal Unit for consideration of filing appropriate administrative and other sanctions against the erring Accountant under Executive Order No. 292 and applicable Civil Service rules and regulations, if warranted.**

17.12. Management informed that CAAP-HO AD would assign personnel to locate the documents pertaining to the unaccounted SL balance and, in case efforts would be futile, will make representation with the COA for a request for write-off.

c) Non-recognition of the transactions relative to the ROW Fund for the Caticlan Airport Development Project

17.13. The Concession Agreement for the Caticlan Airport Development Project stipulates that the acquisition of the Site shall be the exclusive responsibility of the Republic of the Philippines (ROP). However, the concessionaire would advance the acquisition cost to the ROP. This ensures clean possession of the site during the construction period and concession period. The cost for the acquisition shall form part of the Project Cost, up to the amount of P466 million, referred to in the agreement as the ROW Fund.

17.14. Evaluation of the ROW Fund disclosed that the concessionaire had advanced the cost of acquisition of the site and/or right-of-way affected by the Caticlan Airport Development Project totaling P19.526 million as of November 17, 2022, per Status Report provided by "In Trust For" Account Officer. These advances were deposited to a current account at LBP Kalibo Branch under CAAP Kalibo International Airport. However, this bank account, with a balance amounting to P1.856 million as of December 31, 2022, remained unrecorded in the books of CAAP AC VI.

17.15. Interview with the designated "In Trust For" Account Officer disclosed that CAAP Authority Order No. 119-2022 dated June 10, 2022 was issued for the constitution of a special Technical Working Group (TWG) of the site acquisition committee limited to the acquisition of site/right-of-ways to be affected by the proposed development of Caticlan Airport, Malay, Aklan. The Authority Order also stated the designation of the "In Trust For" Account Officer and a Writ of Possession Implementor.

17.16. The "In Trust For" Account Officer is the one facilitating the payment and acquisition of site/right-of-ways to be affected by the proposed development of

Caticlan Airport and keeping the records of affected lot owners. However, the disbursements did not undergo proper procedures. Accounting books, records, forms, and reports were not prepared and maintained; thus the transactions were not recorded in the books of CAAP AC VI.

17.17. The ROW Fund is a custodial fund for acquiring site/right-of-ways affected by the Caticlan Airport Development Project. The fund which CAAP AC VI received through the bank account opened under its name and all the transactions related thereto should have been taken up in the books of accounts of the Authority. But then, the Area Accountant, in an interview, claimed that she was not informed of the fund received from the concessionaire.

17.18. The ROW Fund is an accountability of the CAAP AC VI and is subject to audit. Without the necessary accounting books, records, forms, and reports prepared and maintained by the accountable officer, account balances affected by the transactions are unreliable. Due to the non-recognition in the CAAP books of accounts of the transactions related to the ROW fund, the accuracy and completeness of the balances of *Cash* and the related accounts could not be ascertained.

17.19. We recommended that Management:

- a. Direct the AC VI Accountant to set up a trust liability for the funds received and record in the books of accounts the transactions in the Cash in Bank at LBP Kalibo branch; and**
- b. Direct the “In Trust For” Account Officer to follow the standard disbursement procedures for government funds, prepare and maintain accounting books, records, forms, and reports pertaining to the ROW Fund and timely submit the required reports to COA.**

17.20. The Acting Area Manager of AC VI commented that the Area Center was not informed about the nature and details of the transactions behind the funds received. The Accountant also asserted that she could not record the balance of the LBP Kalibo Branch Current Account without authority from the CAAP-HO. She further claimed that even the CAAP-HO did not know about the funds being transferred for Right-Of-Way (ROW) Fund in Kalibo Airport. Hence, the recording of the account in Kalibo was on hold due to the issue of ownership of the account and the recording process during the disbursements. Coordination with DOTr and CAAP Head Office to discuss issues arising from the Caticlan Airport Development Project is underway.

17.21. Meanwhile, AC VI recorded the balance per bank statement amounting to P1.856 million. However, *Other Payables* was credited instead of *Trust Liabilities*. In addition, the supporting documents/records of all the transactions relative to the ROW Fund were not submitted nor recorded in the books of accounts of CAAP.

17.22. As a rejoinder, the Audit Team recommended that CAAP coordinate with the concessionaire, investigate the nature of the funds deposited at LBP Kalibo

branch, secure the pertinent documents and accordingly recognize in CAAP books of accounts the transactions that transpired related thereto.

d) Unrecorded reconciling items per books of accounts amounting to P1.630 million and delay and non-submission of Bank Reconciliation Statements (BRSs)

17.23. This is a reiteration of the audit observation embodied in CY 2021 AAR.

17.24. Examination of the BRSs disclosed that reconciling items amounting to P1.630 million remained unadjusted in the books of accounts as of December 31, 2022. The breakdown is shown in the Table 22.

Table 22. Book Reconciling Items	
Reconciling Items	Amount
HO - unrecorded deposits to AC accounts (prior to 2019)	P 951,023
HO - unrecorded bank debit memos (2020-2021)	476,459
HO - unrecorded deposits	80,719
HO - unidentified reconciling item in AC XI (prior to 2015)	71,051
HO - unrecorded credit memos	16,221
AC IX - negative book balances of certified closed accounts	34,120
	P 1,629,593

17.25. As embodied in the previous AAR, the amount of P0.951 million pertained to unrecorded deposits to bank accounts maintained for collections for Area Centers (AC) VI, VII, and VIII, while the unidentified reconciling item of P71,051 belonged to AC XI. For the unrecorded bank debit memos of P476,459, the CAAP-HO Treasury Division (TD) was still in the process of verifying from the Air Navigation Service (ANS) whether these were their transactions. The CAAP-HO TD and ADs stated they already informed the concerned ACs and the ANS about the reconciling items. However, they have not yet taken action to analyze, verify, and record the reconciling items.

17.26. In CY 2021, the Audit Team issued AOM No. 2022-027 (2021) dated May 20, 2022, regarding the late preparation and submission of the BRSs. The CAAP-HO AD and TDs explained that this was due to the depository banks' delay in providing the bank statements and other pertinent documents, such as the debit and credit memoranda.

17.27. In 2022, despite the timely availability of bank statements, the preparation and submission of BRSs were still delayed by an average of six months. The persons in charge explained that the preparation of BRSs was given less priority as these were additional workloads assigned to them due to limited staffing. They also waited for the issuance of the GL before they could start preparing the BRSs.

17.28. The AC IX Audit Team also noted that AC IX did not prepare BRSs for nine out of 11 bank accounts.

17.29. The delayed and/or non-preparation and submission of BRSs impeded the timely verification of the reports and early detection and correction of any error

like the unadjusted/ unrecorded book reconciling items resulting in inaccurate *Cash in Bank* account balance.

17.30. We reiterated our prior year's recommendations, with modification, and Management agreed to:

- a. Instruct the CAAP-HO TD and AD to coordinate with the concerned ACs and the Air Navigation Service to verify the nature of unrecorded/ unidentified book reconciling items in the BRS and effect the adjustments, as warranted; and
- b. In CAAP-HO and AC IX, considering that cash is the most liquid asset that should be monitored closely, designate personnel whose main task is bank reconciliation to prioritize timely preparation and submission of monthly BRS to make sure that the reconciling items, including book and bank errors, are immediately detected and recorded/adjusted in the books to ensure the validity and accuracy of the account balances in the financial statements.

18. The existence and reliability of the Deferred Charges/Losses account totaling P13.606 million, could not be established due to the absence of valid and sufficient supporting documents to substantiate the balance.

- 18.1. This is a reiteration of the audit observation embodied in CY 2021 AAR.
- 18.2. The Conceptual Framework for Financial Reporting provides that verifiability is one of the enhancing qualitative characteristics of useful financial information. Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent and that different knowledgeable and independent observers could reach a consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.
- 18.3. Meanwhile, Philippine Accounting Standard (PAS) 1 on *Presentation of Financial Statements* requires that Financial Statements shall present fairly the financial position, financial performance, and cash flows of an entity.
- 18.4. The *Deferred Charges/Losses* account, as of December 31, 2022, had a balance of P13.606 million and had been non-moving for most of the amount since 2016.
- 18.5. The Audit Team noted that the balance pertains primarily to the fund transfer of CAAP to the Federal Aviation Authority (FAA) of the United States of America, amounting to P10.156 million. In 2016, CAAP and the FAA entered into a Memorandum of Agreement (MOA) where the latter shall provide the former temporary duty assignments 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 outlined in Annexes 1, 6 and 8 to the Convention on International Civil Aviation.

- 18.6. Based on the MOA, the endeavor should have been completed by the end of 2017. Personnel from the Flight Standards Inspectorate Service (FSIS), the project's end-user, claimed that the project was already accomplished. However, the said personnel could not provide any pertinent documents to support its completion nor any information on its current status.
- 18.7. An Audit Observation Memorandum was already issued last year relative to this balance. In addition, this Office issued a letter dated March 7, 2023, to the Office of the Director General, inquiring about the project's status; however, the Audit Team did not receive any concrete information.
- 18.8. The Audit Team found it alarming that Management could not present documents relative to a project, considering that the MOA entered into by CAAP was only six years ago. The lack of information about the project casts doubt on the verifiability and faithful representation of the Deferred Charges/Losses Account contrary to the guidelines mentioned above.

18.9. We reiterated our prior year's recommendations that Management:

- a. **Require the FSIS to submit pertinent documents to the Accounting Division to determine the project's current status with the FAA. Otherwise, explain why it failed to produce the necessary documents; and**
- b. **Direct the Finance Department to immediately make written representation to the FAA, signed by the Director General, inquiring about the project's status and, if necessary, for the refund of any remaining balance.**

19. The faithful representation of the year-end balance of *Advances to Contractors* account amounting to P7.220 million could not be ascertained due to the inclusion of dormant and unrecouped balances amounting to P3.566 million.

- 19.1. This is a reiteration of the audit observation embodied in CYs 2017 to 2021 AARs.
- 19.2. Paragraph 15 of the Philippine Accounting Standards (PAS) 1 requires the fair presentation of financial statements.
- 19.3. 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*.
- 19.4. As of December 31, 2022, the *Advances to Contractors* account balance amounted to P7.220 million, including dormant unrecouped advances totaling P3.566 million. Details are shown in Table 23.

Table 23. Dormant and Long Outstanding Unrecouped Advance Payment

No	Contractor	Particulars	Date Granted	Amount	Status or Remarks
Aerodrome Development and Management Service (ADMS) Project					
1	Contractor 1	Continuation of the Development of the Casiguran Airport Project	August 2011	P 1,815,103	With Variation Order
2	Contractor 2	Improvement of the First and Fourth Floor of the Main Bldg. and other CAAP Main Office selected Areas	May 2013	1,309,920	Terminated
3	Contractor 3	Expansion of Passenger Terminal Building-Tagbilaran Airport (AC VII)	April 2012	94,297	No information/documents
4	Contractor 4	Widening of Apron of Sanga-Sanga Airport, Bongao, Tawi-Tawi (AC IX)	April 2012	29,020	No information/documents
Air Navigation Service (ANS) Project					
5	Contractor 5	Repair of VFR room and other floor levels at Control Tower Bldg., NAIA (under ATO)	July 2005	218,467	ATO balances
6	Contractor 6	Repair/improvement of a perimeter fence at NDB Station at Rosario Cavite (under ATO)	December 2007	43,407	ATO balances
7	Contractor 7	System Development of Auto AES (under ATO)	January 2002	33,000	ATO balances
8	Contractor 8	Construction of three (3) storey FSS Bldg. at Basco Airport (AC II)	July 2009	22,914	No information/documents
				P 3,566,128	

19.5. Verification of documents disclosed that CAAP issued demand letters to Contractors 1 and 2. The Authority committed to issue demand letters for the advance payment to Contractors 3 and 4. Moreover, CAAP-HO Air Navigation Service (ANS) mentioned that the Project Engineers for the remaining projects would exert effort in locating the supporting documents. They would coordinate with the end-user as regards the System Development of Auto AES, which has yet to be coordinated with the end user.

19.6. Due to the inclusion of dormant and long outstanding balances and the absence of supporting documents, the balance of the *Advances to Contractors* account presented in the financial statement as of December 31, 2022, is unreliable. Moreover, the unrecouped advances deprived the Authority of the funds that could have been utilized for other projects beneficial to the Authority.

19.7. We reiterated our prior years' recommendations that Management direct CAAP-HO Accounting Division (AD) to:

- a. **Exert effort to locate the supporting documents and ascertain the validity and accuracy of the balances of the advance payments on the above projects;**

- b. Prepare the necessary adjusting entries, if warranted;

19.8. We further recommended that Management:

- a. Direct CAAP-HO AD to coordinate with ADMS and Contractor 1 to ensure that the balance of the advance payment of P1.815 million relative to the Continuation of the Development of Casiguran Airport Project is deducted from the payment of the 2nd progress billing for the Baler Airport Development Project (Phase 1);
- b. Require ANS, in coordination with AD, to locate and validate the documents, if any, for the Repair of the VFR room and other floor levels at Control Tower Building, NAIA, and the Repair/improvement of the perimeter fence at NDB Station at Rosario Cavite; and
- c. Instruct CAAP-HO ADMS and ANS to expedite the verification of the existence of the contractors, take appropriate actions, and issue demand letters immediately.

19.9. Management commented that they had already instructed CAAP-HO AD to send confirmation letters to the Philippine Contractors Accreditation Board (PCAB) to check whether concerned contractors had renewed their licenses.

19.10. Management further instructed the CAAP-HO AD to deduct the amount of P1.815 million from the progress billing on any claim of Contractor 1. CAAP-HO AD would require CAAP-HO ADMS to submit documents for variation order and the remaining cost of the original contract if sufficient to recover the unrecouped advances.

19.11. Management also committed to verify if these contractors have ongoing projects with other government agencies. If there are any, Management will issue demand letters to these agencies for the possible recovery of advances. Further, Management would request the blacklisting of these contractors.

19.12. Lastly, Management added that the concerned personnel would try to locate the documents.

19.13. As a rejoinder, the Audit Team will monitor Management's compliance with the audit recommendations and look forward to its implementation in CY 2023. Further, the Audit Team will request documents (i.e., demand letters, PCAB confirmation, etc.) to support the actions made by the Management.

20. *Guaranty/Security Deposits Payable* account balance of P99.427 million not be relied upon due to a variance of P1.458 million between General Ledger (GL) and Subsidiary Ledgers (SLs) and the inclusion of long outstanding balances of retention money for various projects.

20.1. This is a reiteration of audit observation embodied in CY 2021 AAR.

20.2. Paragraph 15 of PAS 1 requires the fair presentation of financial statements.

- 20.3. 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.”
- 20.4. Retention money pertains to the amount withheld from progress payments to contractors, equivalent to 10 per cent of the total amount due before 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.
- 20.5. Analysis of the *Guaranty Deposits Payable* account revealed the following:
- a) **Variance of P1.458 million between the balances per General Ledger (GL) and Subsidiary Ledger (SL) of *Guaranty Deposits Payable* account**
- 20.6. Comparison between the balances of GL and SL of CAAP-HO revealed a variance of P1.458 million.

Table 24. Variance between GL and SL of Guaranty Deposits Payable Account of CAAP-HO

Balance as of December 31, 2022	Amount
Per GL	P 75,875,001
Per SL	77,332,975
	P 1,457,974

- 20.7. Audit disclosed that the cause of the variance was due to prior years’ transactions subject to reconciliation and verification of CAAP-HO AD.
- 20.8. Also, AC V reiterated the non-maintenance of subsidiary ledgers for the *Guaranty/Security Deposits Payable* account amounting to P1.095 million.
- 20.9. Due to the variance noted and non-maintenance of SL in AC V, the accuracy and reliability of the year-end balance of the *Guaranty/Security Deposits Payable* account could not be ascertained.
- 20.10. We reiterated our prior year’s recommendations that Management direct:**
- a. **CAAP-HO AD to gather and review supporting documents, reconcile the GL and SL balances, and make the necessary adjustments in the books of accounts, if warranted; and**
- b. **AC V to prepare the subsidiary ledgers and aging schedules and reconcile the GL and SL balances.**
- 20.11. Management commented that the remaining discrepancy is still being traced from prior years’ transactions. Moreover, AC V Management agreed and

commented during the exit conference that they are still in the process of complying with the recommendations of the Audit Team.

20.12. For CAAP-HO, the Audit Team noted the adjustment made in SL to reflect the correct balance of the account and would monitor the compliance with the audit recommendations in CY 2023.

b) *Inclusion of long outstanding balances of retention money, some of which have no supporting documents, or withheld but projects were already completed a few years back and/or terminated.*

20.13. Examination of SLs showed that the balance of the *Guaranty/Security Deposits Payable* account included long outstanding retention money amounting to P12.111 million, which pertains to the following:

- a. ATO projects amounting to P6.381 million as presented in ATO's Terminal Report;
- b. Projects with a Certificate of Final Acceptance (CFA) amounting to P2.592 million;
- c. Projects with Certificate of Project Completion (CPC) totaling P1.266 million;
- d. Acquired goods with invoices dated more than two years ago amounting to P0.958 million; and
- e. Terminated projects totaling P0.914 million

20.14. Further, the Audit Team noted that CAAP-HO AD did not prepare an aging schedule nor maintain a similar document to determine whether the recorded retention money was due for release or possible reversion to *Equity*.

20.15. Inclusion of retention money for projects without supporting documents or withheld but projects already completed a few years back and/or terminated, rendered the account balance unreliable.

20.16. We reiterated our prior year's recommendations, with modifications, that Management direct the CAAP-HO AD to:

- a. **Exert effort to locate documents, coordinate with ADMS/SD/End-user regarding the status of various CAAP projects to ascertain the validity of the recorded retention money, and 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/issues after coordination between the End-user or assigned Project Engineer/s and the contractor/s, and (3) possible appropriate actions to be taken for terminated projects especially those contractors to whom the Authority has existing claims;**
- b. **Prepare and maintain an 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); and**

c. Effect the necessary adjustments in the books of accounts, as necessary.

- 20.17. Management commented that with the issuance of COA and DBM Joint Circular No. 1, s. 2021 re: *Guidelines Implementing Executive Order (EO) No. 87 directing that all Accounts Payable which remain outstanding for two (2) years or more in the books of National Government Agencies be reverted to the Accumulated Surplus or deficit of the General Fund of the National Government*, the CAAP-HO AD would prepare the necessary journal entry voucher for the reversion of the accounts which remain in the books of accounts for more than two years. They will submit to DBM and COA a list of reverted Accounts Payable as required under the Circular. This would include the ATO accounts. Management believed the concerned contractors were no longer interested in claiming the retention money deducted from the progress billings.
- 20.18. CAAP-HO AD also informed that they currently maintain SLs per contractor, showing the contractor's name, project details, and amount of retention money.
- 20.19. The Audit Team acknowledged the actions to be taken by Management for the long outstanding balances. However, the Audit Team would like to reiterate that the Aging Schedule differs from the SL. It is necessary to prepare and maintain the schedule to monitor the number of days that the payables remain outstanding in the accounts books.
- 21. The Accounting System of CAAP could not be relied upon due to the absence of crucial internal controls as evidenced by the prevalent occurrence of the following: a) erroneous and non-posting of transactions, b) unreconciled variances between General Ledgers (GLs) and Subsidiary Ledgers (SLs), and c) negative balances within the accounts, which cast doubt on the fair presentation of affected accounts in the financial statements.**
- 21.1. This is a reiteration of the audit observations embodied in the CY 2021 AAR.
- 21.2. Philippine Accounting Standard (PAS) 1 on *Presentation of Financial Statements* states that Financial Statements shall fairly present an entity's financial position, financial performance, and cash flows.
- 21.3. Further, the Conceptual Framework for Financial Reporting prescribes that financial information must not only represent relevant phenomena but also faithfully represent the phenomena it purports to represent. Faithful representation means that information must be complete, neutral, and error-free.
- 21.4. CAAP, despite its voluminous and complex transactions involving 12 Area Centers and a Head Office, does not employ an automated accounting system. To date, to produce its financial statements, it employs a manual accounting system that heavily relies on Microsoft Excel.
- 21.5. Erroneous posting of transactions, unreconciled balances between General Ledger (GL) and its respective Subsidiary Ledgers (SLs), and negative

balances within accounts rendered multiple accounts in the financial statements of CAAP unreliable. Details are as shown hereunder:

a) Erroneous posting of transactions resulting in misstatements in multiple accounts in the financial statements of CAAP.

Due to the Accountant's haphazard or careless encoding of transactions, an alarming number of erroneous postings misstated numerous account balances in the financial statements of CAAP. The following issues brought about the erroneous postings:

- Some transactions were posted to different accounts rather than those indicated in the approved journals or JEVs.
- There were times when duly approved JEVs were not posted in the GL.
- There were cases where the Accountant posted the transactions to the correct accounts but at a different amount.
- There were instances when the Accountant thought the original JEV was inaccurate. Instead of raising the issue with the Chief Accountant to initiate the revision of the JEV as necessary, the Accountant took matters into his own hands and posted the transaction to a different account, notwithstanding the already reviewed and approved JEV.
- Several postings where the JEV Number used to identify a specific JEV was inadvertently swapped to a different JEV Number. While this does not constitute a misstatement, it added to the confusion, which might have contributed to the erroneous postings of transactions.

21.6. A summary of the effects of these erroneous postings on affected accounts in the financial statement is shown in Table 25.

Table 25. Effect of Erroneous Posting of Transactions

Effect of Erroneous Posting of Transactions to Accounts					
Overstatement/ (Understatement)					
No	Account Name	Erroneous Posting to Different Accounts	Unposted Transactions	The inaccurate amount used in recording transactions	Net
1	Investments in Time Deposits - Foreign Currency	P 247,385,240			P 247,385,240
2	Investments in Time Deposit-Local Currency	(247,385,240)			(247,385,240)
3	Cash in Bank-Local Currency, Current Account	(6,724,709)		P (175,695,000)	(182,419,709)
4	Due from Regional/Branch Offices	(75,929,102)		149,514,792	73,585,690
5	Due to NGAs	(70,455,578)			(70,455,578)
6	Construction in Progress - Infrastructure Assets	70,326,001			70,326,001
7	Guaranty/Security Deposits Payable	70,326,001			70,326,001

Effect of Erroneous Posting of Transactions to Accounts					
Overstatement/ (Understatement)					
No	Account Name	Erroneous Posting to Different Accounts	Unposted Transactions	The inaccurate amount used in recording transactions	Net
8	Construction in Progress - Buildings and Other Structures	(70,326,001)			(70,326,001)
9	Cash in Bank-Local Currency, Savings Account	27,153,765		25,695,000	52,848,765
10	Other Land Improvements	(5,834,629)		51,747,411	45,912,782
11	Airport Systems	14,079,807			14,079,807
12	Accounts Receivable	(8,986,535)			(8,986,535)
13	Due from National Gov't Agencies	8,592,110			8,592,110
14	Buildings	(99,145,809)		94,653,266	(4,492,543)
15	Traveling Expenses - Local	4,031,000		107,462	4,138,462
16	Confidential Expenses	(4,031,000)			(4,031,000)
17	Legal Services	(2,824,032)			(2,824,032)
18	Auditing Services	2,810,751			2,810,751
19	Janitorial Services	(1,016,016)			(1,016,016)
20	Other Professional Services	996,811			996,811
21	Office Supplies Inventory	569,632		(992)	568,640
22	Output Tax			(471,327)	(471,327)
23	Office Supplies Expenses	(354,539)		992	(353,547)
24	Other Receivables	28,715	P 269,119		297,834
25	Other Maintenance & Operating Expenses		(269,119)		(269,119)
26	Accountable Forms, Plates and Stickers Inventory	139,447			139,447
27	Interest Income	129,577			129,577
28	Medical, Dental & Lab. Supplies Inv.	109,600			109,600
29	Medical, Dental and Laboratory Supplies Expenses	(109,600)			(109,600)
30	Due to BIR			62,450	62,450
31	Advances to Officers & Employees		50,532	(107,462)	(56,930)
32	Traveling Expenses - Foreign		(50,532)		(50,532)
33	Advances to Special Disbursing Officer	(44,413)			(44,413)
34	Petty Cash Fund	38,120			38,120
35	Due from Officers and Employees	34,947			34,947
36	Due to Officers and Employees	34,947			34,947
37	Retained Earnings	(25,499)			(25,499)
38	Accounts Payable	(13,248)			(13,248)
39	Receivables- Disallowances / Charges	11,303			11,303
40	Cash Collecting Officer			9,000	9,000

Effect of Erroneous Posting of Transactions to Accounts					
Overstatement/ (Understatement)					
No	Account Name	Erroneous Posting to Different Accounts	Unposted Transactions	The inaccurate amount used in recording transactions	Net
41	Repairs & Maintenance - Land Improvements	6,200			6,200
42	Repairs and Maintenance-Semi-Expendable Machinery and Equipment	(6,200)			(6,200)
43	Due to Pag-IBIG	100		3,694	3,794
44	Taxes, Duties, and Licenses	500			500
45	Membership Dues & Contributions to Org.	(500)			(500)

21.7. The Accountant in-charge of the posting of transactions to the GL did not provide a justifiable reason to explain the erroneous recording of transactions.

21.8. Posting is one of the most basic yet crucial step inherent in the accounting process. Nevertheless, the Accounting Division did not employ any safeguards to perform it properly. The issues noted could have been easily detected and corrected had the Accounting Division instilled a periodic review of all posted transactions in the books of accounts. It is also imperative that the Accounting Division designate a personnel capable of performing critical functions or processes in the accounting cycle.

21.9. In compliance with the AOM issued, the Accounting Division made various adjusting journal entries to correct many of the erroneous postings noted. The accounting Division submitted the JEVs to the Audit Team for evaluation.

21.10. Considering the significant number of transactions involved, it showed the carefree attitude of the Accounting Division in maintaining the Authority's books of accounts, as well as the lack of a functional internal control system to ensure the accuracy of financial records. The above issue not only rendered many accounts in the financial statements unreliable but also deprived the users of the financial statements of any semblance of confidence in how they were prepared.

b) Unreconciled balances between the GL and its respective Subsidiary Ledgers (SLs)

21.11. General Ledger (GL) is the book of final entries containing the totals of special journals and individual journal entries posted in the account. On the other hand, the Subsidiary Ledger (SL) is the book containing the details or breakdown of the balance of the controlling account appearing in the GL. The totals of the SL balances shall be reconciled with their respective control account regularly or at the end of each month.

21.12. The balances as of December 31, 2022, between the GL and SL of various accounts in the CAAP-HO did not match, as shown in Table 26. Some of these

variances were significant and material enough to render the balances of the accounts unreliable.

Table 26. Variance between GL and SL Balances in CAAP-HO

Account Name	Balance per GL	Balance per SL	Variance (Absolute Value)	Consolidated balances	%
Accounts Receivable	P 3,256,631,612	P 3,423,728,845	P 167,098,233	P 5,783,176,269	2.89%
Other Unearned Revenue/Income	274,548,486	173,598,544	100,949,942	280,135,590	36.04%
Due to NGAs	1,677,728,796	1,620,091,385	57,637,411	1,693,980,335	3.40%
Receivables- Disallowances/Charges	29,426,312	6,778,448	22,647,864	97,961,288	23.12%
Other Receivable	57,634,950	50,292,735	7,342,215	58,867,648	12.47%
Cash in Bank-Local Currency, Savings Account	5,114,533	(672,625)	5,787,158	5,202,888	111.23%
Guaranty/Security Deposits Payable	75,875,001	77,332,975	1,457,974	99,426,892	1.47%
Cash in Bank-Local Currency, Current Account	3,843,941,968	3,840,479,364	3,462,604	4,488,780,561	0.08%
Office Supplies Inventory	6,934,309	3,860,010	3,074,299	21,931,980	14.02%
Advances to Officers & Employees	(30,457)	690,111	720,568	1,524,600	47.26%
Cash - Collecting Officer	1,326,344	1,446,673	120,329	6,136,188	1.96%
Accumulated Depreciation - Other Property, Plant & Equipment	2,313,330	1,910,795	402,535	10,756,452	3.74%
Advances to Special Disbursing Officer	4,539,150	4,204,700	334,450	4,769,400	7.01%
Furniture and Fixtures	8,109,034	7,987,740	121,294	57,128,629	0.21%
Accumulated Depreciation - Furniture & Fixtures	6,862,043	6,912,939	50,896	22,779,386	0.22%
Other Equipment	55,448,281	55,405,749	42,532	213,848,409	0.02%
Information and Communication Technical Equipment	475,032,011	475,022,011	10,000	538,577,525	0.00%
P 371,260,304					

21.13. Since the Authority implements a manual accounting system, the posting of the journal entries from the general and special journals to the corresponding SLs and GLs are done manually, hence more prone to data entry errors as well as errors of omission, commission, deletion, duplication, transposition etc.

21.14. Moreover, the Accounting Division did not prepare subsidiary ledgers for the Trust Liabilities-Disallowances/Charges account. The Trust Liabilities-Disallowances/Charges account contains balances deducted from terminal leave benefits of retiring employees for disallowances still not yet rendered final and executory. The audit revealed that the Accounting Division did not prepare any SLs relative to the account, which should provide necessary details as to the disallowances involved, the amount collected and when it was collected, and from whom the balances were collected from.

21.15. Some of these variances have already been raised in prior Annual Audit Reports; however, the Audit Team still noted significant discrepancies as of the report date. It was further noted that the Accounting Division found the reconciliation of these accounts cumbersome and difficult since they had to manually check all the entries in the GL and SL, coupled with the shortage of staffing and fast personnel turnover. Similarly, we noted that the Accounting

Division does not employ internal control to timely detect and correct discrepancies noted between its GLs and SLs.

c) The existence of negative balances within accounts amounting to P14.319 million indicates inaccuracies in the accounting of transactions

21.16. The Revised Chart of Account for Government Corporations provides, among others, each account's description and normal balances.

21.17. Meanwhile, negative balances refer to ending balances in an accounting record that is the reverse of the expected normal balance of the account. A negative balance indicates erroneous transactions within the account and should be investigated.

21.18. Various accounts reflected negative balances as of December 31, 2022. Details are shown in Table 27.

Table 27. Accounts with Negative Balances within the Account

Account	Amount
Construction in Progress - Infrastructure Assets	P 6,656,271
Construction in Progress - Land Improvement	3,351,321
Construction in Progress - Buildings and Other Structures	748,284
Advances to Contractors	80,770
Guaranty/Security Deposits Payable	78,264
Other Payables	3,405,009
	P 14,319,919

21.19. The negative balances within the Construction-in-Progress (CIP) accounts were primarily due to the erroneous derecognition of completed projects recorded in their respective CIP accounts to give way to the recording of the Property and Equipment (PE). The Accountant appropriately recorded progress billings of construction projects to their respective CIP accounts, net of input taxes. However, when the construction of a particular project had been completed, the Accountant erroneously recorded the transfer to PE inclusive of the input taxes, causing the negative balances.

21.20. Considering the observation mentioned, there is a need for the Accounting Division to investigate and reconcile their records and to prepare the necessary adjusting entries to correct these abnormal balances. The observation resulted in the overstatement of these balances and the misstatement of other affected accounts.

21.21. The above-noted deficiencies could have been minimized to a reasonable level, if not avoided, had the Authority established and implemented a comprehensive internal control system within its accounting system that would help prevent, detect, and correct issues as they occur.

21.22. The Internal Control Standards for the Philippine Public Sector (ICSPPS) provide that accurate and complete accounting records can be achieved through a strong accounting system. It likewise states that Management should

design appropriate control objectives, consistently functioning, cost-effective, and reasonable, and similarly, design various preventive, detective, and corrective controls that could be executed through automated or manual control activities. Automated control activities pertaining to policies and procedures executed wholly or partially through the agency's information system. These activities are less susceptible to human error and are typically more efficient and reliable.

21.23. Therefore, to ensure that financial statements are fairly presented, it is imperative that CAAP design and implement a strong and reliable accounting system that could produce accurate and complete accounting records, with internal controls embedded within the system that are appropriate, consistently functioning, cost-effective and reasonable. These controls should be able to prevent, detect and correct issues as they arise and may be manual or automated.

21.24. Similarly, an automated accounting system could significantly help resolve the issue at hand. Such a system would be able to automate the posting of JEVs from the journals to the ledgers, reducing human intervention and thus lessening the susceptibility of the process to human error. An automated system may likewise reduce unreconciled balances between the GL and SL. Controls should be embedded within the system to require the necessary information to which SL a particular transaction should be recorded to ensure the said transaction is recorded in both the GL and its respective SL. Controls may likewise be installed within an automated accounting system to easily detect, if not prevent, the occurrence of negative balances within an account. An automated accounting system across all Area Centers would benefit the Authority as financial information for CAAP-Head Office and Area Centers would be more accessible to Management.

21.25. While establishing an automated accounting system does not give an absolute assurance that the financial statements would be fairly presented, it could reduce the risk of unreliable and/or inaccurate financial information to a reasonable level. Moreover, the accounting personnel currently assigned to do 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.

21.26. We reiterated our prior year's recommendations, with modification, and Management agreed to direct the Department Manager III, Finance Department, to:

- a. Initiate the procurement or establishment of an automated accounting system;**
- b. Review or revise the Accounting Division's current internal control policies or procedures to minimize the risk of inaccurate or unreliable financial statements by ensuring that posting of transactions and reconciliation of account balances are regularly performed; and**

c. **Oversee that the Accounting Division conducts the following to resolve the current issues:**

- i. **Review all erroneous postings and prepare the necessary journal entries to correct them, as warranted;**
- ii. **Reconcile the variances noted between the GL and SL and prepare the necessary journal entries, as warranted;**
- iii. **Prepare SLs for the Trust Liabilities- Disallowances/Charges account and other critical accounts; and**
- iv. **Investigate each SL with negative balances and determine the appropriateness of previous journal entries. Prepare the journal entries to correct the issue after that.**

21.27. Management submitted various Journal Entry Vouchers to correct the erroneous postings of transactions, and the Audit Team is validating these journal entries. However, considering the significance of accurately posting transactions in the accounting process, the Audit Team would like to emphasize that Management must revise its existing process to include appropriate internal control measures to ensure the same observation would not happen again.

B. OTHER OBSERVATIONS

22. CAAP granted financial assistance to 16 airline operators amounting to P52.875 million over the six month-period explicitly provided under Section 4 (gg) (2) of RA No. 11494 and MC No. 32-2020.

22.1. Republic Act (RA) No. 11494, or the *Bayanihan to Recover as One Act*, was passed on September 11, 2020, declaring a state of national emergency over the entire country given 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. It also provides that:

22.2. “For purposes of item (2) herein, the grants may include reductions in (i) rates through the removal of local taxes as may be applicable, and (ii) fees and charges imposed by any regulatory agency and LGU. Such grants shall be payable, respectively, to the BIR, the LGUs and relevant regulatory agencies: Provided, That the grant shall be chargeable against the fund created for the purpose of implementing this subsection: **Provided, further, That any critically impacted business may avail of the grant for a period of not more than six months.**” (emphasis ours)

22.3. Relative thereto, on October 26, 2020, DOTr promulgated Department Order (DO) No. 2020-018 re: *Guidelines on the Implementation of DOTr Interventions for Critically-Impacted Businesses*. Section 2 of the DO directed CAAP to promulgate rules, regulations, and guidelines for the undertaking and implementation of an Assistance Program in the amount of P300 million to

assist critically impacted businesses to subsidize air navigation charges, landing and takeoff fees, and parking fees. Pursuant to such directive, CAAP issued Memorandum Circular (MC) No. 32-2020 dated November 24, 2020 re: *Implementing Rules and Regulations (IRR) of the Civil Aviation Authority of the Philippines' Assistance program for Critically-Impacted Business in the Aviation Sector*. Section 3.03 thereof states, "If the balance of the trust fund is insufficient to cover the total billings of all qualified beneficiaries for the month, each beneficiary's claim shall be subsidized on a pro-rated basis based on the remaining fund balance." Moreover, Section 4.02 of the said MC states that "These Rules shall take effect retroactively on November 1, 2020, and shall be valid in consonance with the effectivity of RA No. 11494."

- 22.4. The Audit Team conducted an in-depth examination of the amount of financial assistance granted to each beneficiary. We noted that only 16 air operators out of 219 Critically Impacted Businesses benefited from the Assistance Program in the total amount of P300 million. Details are shown in Table 28.

Table 28. Subsidy Granted to Air Operators

Air Operator	Amount of Grant Within 6 months	Amount of Grant Over 6 months	Total
Air Operator 1	P 699,780	P 150,966	P 850,746
Air Operator 2	59,799,621	11,341,007	71,140,628
Air Operator 3	1,243,803	251,224	1,495,027
Air Operator 4	288,216	47,496	335,712
Air Operator 5	1,122,301	5,865,287	6,987,588
Air Operator 6	7,255,743	1,514,681	8,770,424
Air Operator 7	77,381,938	15,253,043	92,634,981
Air Operator 8	577,418	117,065	694,483
Air Operator 9	397,586	162,971	560,557
Air Operator 10	462,422	28,447	490,869
Air Operator 11	2,066,573	276,661	2,343,234
Air Operator 12	16,152,267	2,543,920	18,696,187
Air Operator 13	70,499,931	13,736,220	84,236,151
Air Operator 14	389,310	69,222	458,532
Air Operator 15	8,566,410	1,452,118	10,018,528
Air Operator 16	221,929	64,424	286,353
	P 247,125,248	P 52,874,752	P 300,000,000

- 22.5. Scrutiny of documents revealed that the 16 beneficiaries availed of the grant for seven to eight months, exceeding the allowed six-month period allowed under Section 4 (gg) (2) of RA No. 11494 and MC No. 32-2020. The excess financial assistance amounted to P52.875 million.
- 22.6. While the Audit Team understands that the program was created to extend assistance to critically-impacted businesses in the aviation sector, granting the said assistance over of what the law allows is deemed irregular.

22.7. We recommended that Management:

- a. **Coordinate with the 16 beneficiaries and arrange for the return of the excess grant they received;**

- b. **Re-evaluate the request of other Critically-Impacted Businesses to avail of the assistance program but were not granted and determine whether they are qualified for the program; and**
 - c. **Coordinate with DOTr and request approval for the reallocation/distribution of P52.875 million to other qualified beneficiaries, if any, in accordance with the provisions of applicable laws, rules, and regulations. Otherwise, process the return of the excess financial assistance to DOTr.**
- 22.8. Management commented that the six-month period prescribed under Section 4 (gg) of RA No. 11494 pertains to the period that critically-impacted business might avail of the grant by applying for it; thus, the six-month period would begin to run when a specific request was made. Further, Management commented that the actual implementation of the grant was subject to the actual transfer of the Assistance Program amounting to P300 million from the DOTr in December 2020. Following this theory, the six-month period under Section 4 (gg) of RA No. 11494 only ended in June 2021. At this juncture, the Management stressed that CAAP's last approval of the grant was on May 12, 2021, which pertained to the application submitted on January 6, 2021. Moreover, Management commented that the time-constrained implementation was remedied by the extension granted by RA No. 11519, which effectively allowed for a longer implementation period.
- 22.9. Further, Management commented that the evaluation of the propriety or impropriety of the disbursement lies with the DOTr since it is the Source Agency of the fund. In this regard, when the DOTr Audit Team reviewed the utilization and liquidation of the P300 million fund, it found that CAAP had fully utilized the same within the periods provided by law. In other words, no improper disbursements were evaluated by the DOTr in relation thereto.
- 22.10. As an audit rejoinder, the Audit Team would like to emphasize that RA No. 11494 specifically provides that any critically impacted business may avail of the grant for not more than six months. RA No. 11519 was issued, extending the availability of appropriations under RA No. 11494 for release, obligation, and disbursement until June 30, 2021. No provision or amendment increased the number of months that critically impacted businesses could avail of the grant.
- 22.11. Section 1 of RA No. 11519 specifically provides: **“Provided further, That the use of such appropriations shall continue to be governed by the provisions of Section 4 of the Bayanihan to Recover as One Act.”** As such, CAAP shall comply with the provisions of the law, specifically Section 4 (gg) (2) of RA No. 11494, to grant assistance to critically impacted businesses for six months only.
- 22.12. With regard to the comment saying that since the DOTr is the Source Agency (SA), their Audit Team is the one to evaluate the propriety or impropriety of the fund's utilization, we would like to inform Management that under COA Circular No. 94-013 dated December 13, 1994, re: *Rules and Regulations in the Grant, Utilization, and Liquidation of Funds Transferred to Implementing Agencies*, the

COA-DOTr's responsibility is to ensure that funds transferred to CAAP are properly recorded in the books of DOTr, as SA, and duly supported with documents. While the CAAP Audit Team's responsibilities are to ensure that funds transferred from DOTr are accurately recorded in the books of CAAP as Implementing Agency (IA), audit the propriety and legality of transactions and conformity with applicable laws, rules, and regulations, and see to it that the unexpended balance and the refund of the disallowance, if any, are remitted to the SA. We would also like to point out that COA-DOTr evaluated the Accomplishment Report submitted by CAAP to determine whether the P300 million fund transferred was fully utilized, but it is COA-CAAP who audited the utilization of the said fund by looking into the documents attached to the vouchers for each disbursement made by CAAP as the IA. Hence, it is CAAP Audit Team's responsibility to determine the propriety and legality of each transaction.

- 22.13. Given the foregoing, the Audit Team maintained that the financial assistance granted more than the allowed six months is deemed irregular. Likewise, the Audit Team would like to reiterate its audit recommendations.

23. The payment for Flying Pay to CAAP personnel amounting to P15.617 million was not in accordance with Section 30 of Republic Act No. 776 and Section 315 (c) of the Government Accounting and Auditing Manual, Volume I, hence, an irregular expenditure.

- 23.1. Republic Act (RA) No. 776, dated June 20, 1952, is an act to reorganize the Civil Aeronautics Board and the Civil Aeronautics Administration. Section 30 of the RA provides that:

SECTION 30. Officials and employees. XXX

All rated and/or licensed airmen and such other authorized personnel of the Civil Aeronautics Board and/or Civil Aeronautics Administration who may be required to undertake or perform regular and frequent aerial flights in connection with their duties, shall, at the discretion of the head of the office receive an increase in compensation equivalent to fifty per centum of their respective base pay. Provided, however, That the total flying hours per month shall not be less than four hours. XXX (Emphasis ours)

- 23.2. COA Circular No. 91-368 dated December 19, 1991, prescribes the use of the Government Accounting and Auditing Manual (GAAM). Section 315 (c) of the GAAM Volume I states that Flying Risk Pay is the payment of additional compensation not exceeding 50 per cent of the monthly base pay and shall be restricted to those airmen performing duties inherent in the operation of the aircraft while in flight and such other airmen as may be required to fly with the aircraft, excluding passenger as such, when it performs its assigned mission. The duties of the airmen assigned to flying status must involve frequent and regular participation in aerial flights of not less than four (4) flying hours per month.

- 23.3. Meanwhile, COA Decision No. 2022-401, dated January 28, 2022, ruled on the Petition for Review of CAAP officers and employees relative to Notice of Disallowance (ND) No. 13-002 (2011) dated March 18, 2013, on the payment of Hazard Pay/Flying Pay to CAAP officials and employees, for the calendar year 2011, in the total amount of P323,580. The Decision denied the Petition for Review filed by CAAP and affirmed the ND issued. It ruled, among others, that Section 30 of RA No. 776 and Section 315 (c) of the GAAM Volume 1 authorized the payment of Flying Pay to those who undertake frequent aerial flights and only to those whose functions are related to aerial and flight missions and not to those merely involved in administrative and financial matters, which are ordinary duties that are not related to aircraft operations and aerial missions. The Decision further stated that flying pay could not be granted to those who traveled by plane and whose purpose was simply to attend conferences and seminars, airport inspections, public hearings, pre-bid conferences, and the like. It declared that granting flying pay otherwise would unwittingly entitle every official or employee who travels by plane to flying pay and that such payment would be not only unnecessary but also an excessive use of public funds.
- 23.4. Finally, COA Circular No. 2012-003, dated October 29, 2012, defines irregular expenditures as those incurred without adhering to established rules, regulations, procedural guidelines, policies, principles, or practices that have gained recognition in laws. It is incurred if funds are disbursed without conforming to prescribed usage and rules of discipline.
- 23.5. As of December 31, 2022, CAAP paid P36.219 million for flying pay. The audit disclosed that, of the said amount, a total of P15.617 million was paid to officers and employees who traveled by plane and whose purposes are unrelated to aircraft operations and aerial missions contrary to the above-mentioned laws, rules, and regulations. A Summary could be seen in Table 29.

Table 29. Summary of Flying Pay paid for CY 2022 Whose Purpose of Travel Did not Involve Aircraft Operations and Aerial Missions

Purpose of Travel	Amount paid
Inspection of Airports and/or other CAAP Facilities	P 8,425,401
<ul style="list-style-type: none"> To conduct safety oversight surveillance/validation audit of Airport Air Navigation Facilities. To conduct an On-Site Verification Audit and Inspection of Airports. To conduct Annual Surveillance for Airports. 	
Inspection of Aircrafts	4,094,440
<ul style="list-style-type: none"> To conduct aircraft inspections where no test flights relative to the inspection were conducted. To witness and observe the reweighing of an aircraft. 	
Validation, Monitoring, Evaluation and Assessment of Various Programs and Activities	1,765,281
<ul style="list-style-type: none"> To conduct the Validation of Corrective Action Plans (CAPs) audit under Phase 5 of the Aerodrome Certification Program. To monitor/observe Initial Dangerous Goods Training To conduct the evaluation and assessment of the Training Program, Maintenance Policies, and Practices. 	

Purpose of Travel	Amount paid
<ul style="list-style-type: none"> To conduct re-evaluation of the Safety Issues for processing the renewal of Philippine Agricultural Aviation Corporation (PAAC) Approved Maintenance Organization No. 01-80. To conduct the Evaluation/Assessment of Airports for the installation of basic weather instruments instead of the Automated Weather Observation System. 	
Medical-Related Examinations	1,331,863
<ul style="list-style-type: none"> To conduct random and annual drug screening of to CAAP Personnel To conduct medical/physical examination of qualified Airfield Lighting and Power Technician (ALPT) trainee To conduct Class III Aviation Medical Examination To conduct en-route urine specimen collection to aircrew for drug screening. 	
	P 15,616,985

23.6. As can be gleaned from the table, the functions of personnel who were paid flying pay are not related to the operations of the aircraft while in flight nor to any aerial mission, which is necessary, as exemplified in the COA Decision. **The involved personnel only acted as passengers during the flight.**

23.7. Considering the foregoing, the payment of flying pay to officers and employees of CAAP, despite the purpose of their travel not coinciding with the operations of the aircraft nor any duties directly involved in the flight, is not in accordance with Section 30 of Republic Act No. 776 and Section 315 (c) of the Government Accounting and Auditing Manual, Volume I, hence an irregular expenditure as provided under COA Circular No. 2012-003.

23.8. The assailed expenditure deprived the Authority of funds that could have been utilized to accomplish its mandate.

23.9. We recommended that Management:

- a. **Stop the payment of Flying Pay to officers and employees who traveled by plane and whose purposes are unrelated to aircraft operations and aerial missions; and**
- b. **Submit an explanation/justification to the Audit Team why these payments should not be disallowed in the audit.**

23.10. Management maintained that the concepts of flying pay under Section 30 of RA No. 776 and flying risk pay under Section 315 (c) of the Government Accounting and Auditing Manual (GAAM) are completely different. They raised that the provisions of RA No. 776 are applicable to CAAP and that the GAAM could not override, limit, or reduce the application of a legislative statute, such as RA 776, considering that the former is a mere administrative issuance.

23.11. They asserted that even those duly authorized CAAP personnel who are not considered airmen, strictly speaking, may be granted flying pay if and when they undertake or perform regular and frequent aerial flights in connection with their duties. Management cited COA Decision No. 2009-125, where they alleged

that the grant of flying pay was allowed for lawyers and/or administrative personnel whose functions are not directly related to aerial and flight missions but were performed in relation to the strengthening of the operations of different Air Transportation Office (ATO) satellites.

23.12. In addition, various Offices affected by the audit observation similarly raised arguments to support the grant of flying pay.

23.13. Lastly, Management requested that the issuance of a Notice of Disallowance relative to the issue be held in abeyance pending the resolution of a Motion for Reconsideration filed with the Commission relative to COA Decision No. 2022-401 dated January 28, 2022.

23.14. On the other hand, the Audit Team respectfully opposed the notion that Section 30 of RA No. 776 and Section 315 (c) of the GAAM are completely different.

23.15. The Audit Team remains with the arguments that personnel whose functions are not related to aerial and flight missions and only acted as passengers during the flight were not entitled to Flying Pay.

23.16. The recent COA Decision No. 2022-401 dated January 28, 2022, clearly states that flying pay cannot be granted to those who traveled by plane and whose purpose is simply to attend conferences and seminars, airport inspections, public hearings, pre-bid conferences, and the like. It declared that to grant flying pay otherwise would unwittingly entitle every official or employee, who travels by plane, to flying pay and that such payment would not only be unnecessary but likewise an excessive use of public funds.

23.17. Thus, the payment of flying pays to those personnel whose functions are not related to aerial and flight missions and who only acted as passengers during the flight are irregular expenditures and may be disallowed in the audit.

24. The accuracy and regularity of payments to the service provider of Institutional Contract of Service (ICOS) personnel covering March 2020 to December 31, 2022, totaling P2.376 billion, were doubtful due to the non-validation of the claims before payment.

24.1. The Internal Control Standards for the Philippine Public Sector (ICSPPS), as prescribed by COA Circular No. 2018-003 dated November 21, 2018, states that the head of the agency is directly responsible for all activities of the agency, which includes designing, implementing, maintaining, and evolving a system of evaluation of internal control system, as well as implementing corrective actions.

24.2. Meanwhile, COA Circular 2017-004 dated December 13, 2017, which provides guidelines on the preparation of financial statements and other financial reports, prescribes the use of Disbursement Vouchers (DV) which shall be used to pay an obligation to employees/individual/agencies/creditors for goods purchased or services rendered. Box 'B' of the form requires the certification of the head

of the Accounting Unit that supporting documents relative to the disbursement are complete and that the amount claimed is proper.

24.3. CAAP contracted a service provider to provide technical and non-technical support service personnel in the CAAP-Head Office and in different CAAP Area Centers in the Philippines. Records show that from March 2020 to December 31, 2022, CAAP had already paid the service provider a total of P2.376 billion.

24.4. Our examination of the procedures practiced by CAAP in processing the claims of the service provider disclosed the following:

24.4.1 The Accountant certified that the amount claimed was proper and supporting documents were complete by signing Box B of the DV, even though the Accounting Division (AD) resorted to sampling in validating the accuracy of the claims contained in the billing statements of the service provider. Further, the AD did not verify whether the names, positions, and rates in the billing statements were authorized personnel to render service for a particular pay period or whether the positions and rates corresponding to those names matched and were accurate.

24.4.2 The AD did not validate nor monitor whether individual claims of ICOS personnel contained in the billing register were valid claims which might have already been paid in prior billings, thus, might result in double payment.

24.4.3 The AD personnel conducting the initial validation of the billing statements is personnel under ICOS with the service provider. While the concerned individual is not solely responsible for the entire validation process, it would have been more prudent for the Authority to assign different personnel to conduct the validation, considering that the claims to be paid involved the salary of the subject personnel.

24.4.4 There were instances where the AD personnel tasked to validate the payments could not answer queries about how certain items in a particular billing statement were calculated, so they referred the Audit Team directly to the service provider for clarification. This shows the lack of knowledge of the AD personnel in the computation of the charges against CAAP. Therefore, there is a risk that errors in the billings, which might have been disadvantageous to CAAP, were undetected but paid. Despite the lack of complete visibility of the work rendered by ICOS personnel throughout the country and the absence of any supporting documents to support such claim, the HRMD issued certifications that the service provider had rendered satisfactory services for CAAP-Head Office and all its Area Centers for a particular period.

24.4.5 Despite the lack of complete visibility of the work rendered by ICOS personnel throughout the country and the absence of any supporting documents to support such a claim, the HRMD issued certifications that the service provider had rendered satisfactory manpower outsourcing services for CAAP-Head Office and all its Area Centers for a particular period.

24.4.6 The HRMD did not maintain an accurate and updated master list of all ICOS personnel assigned at CAAP. Maintaining a monthly master list is essential to help establish the accuracy of charges contained in the billing statements of the service provider.

24.5. We emphasized that before the disbursement of government funds, the AD is duty-bound to review the accuracy and validity of all claims against CAAP and ensure that these are duly supported with complete documents.

24.6. The notion that the AD, essentially the one tasked to ascertain the propriety of claims against the Authority before payment, is oblivious as to how claims were computed, the staggering amount involved, and the general disregard of the AD to implement any semblance of control in its payment process to the service provider of ICOS personnel, is altogether worrying and denotes weakness in the Authority's internal control, which contradicts with the guidelines outlined in the ICSPPS. It likewise casts doubt on the accuracy and regularity of payments made.

24.7. We recommended and Management agreed to:

a. **Direct the Chiefs of the Accounting Division, the HRMD, along with other key offices of CAAP to formulate a documented policy on the processing of all claims of the service provider. Ensure that controls are embedded in the process to ensure all claims are accurate, 100 per cent validated, reviewed, approved, and monitored. The policy must also include, among others, the duties and responsibilities of each office/personnel involved, the procedures to be done, the timelines, and documentary requirements.**

b. Require the Accountant to:

i. **Submit an explanation to the Director General as to why 100 per cent validation was not conducted on the subject payments and commit, moving forward, that they will review the processes of the Accounting Division and exercise prudence in the handling of government funds by ensuring that all claims against the Authority are first thoroughly validated prior to payment;**

ii. **Orient its personnel handling the validation to ensure that they are well aware and knowledgeable on the payment/transaction they are validating.**

c. Instruct the Chief, HRMD to:

i. **Ensure the timely updating of its master list and attach the same to the disbursement vouchers corresponding to the period billed; and**

ii. **Only certify that the service provider has satisfactorily rendered services after obtaining sufficient documented evidence to support such certification from Area Centers.**

d. **Consider the decentralization of processing of payments to the service provider to manage better the volume of transactions that need to be validated.**

24.8. Further, Management commented that they would set a meeting between the service provider, HRMD, and the AD to discuss the possibility of decentralization in processing payments to the service provider.

25. Penalties in the amount of P33.910 million remained uncollected despite the issuance of demand letters, which was not consistent with Item 7.1.17 of the Terms and Conditions of the Contract with the Service Provider, thus, precluding the CAAP from using the funds for other priority projects, plans, and programs.

25.1. This is a reiteration of the audit observation embodied in CY 2021 AAR.

25.2. Item 7.1.17 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.”

25.3. The Table of Offenses/Violations and Penalties is an integral part of the Contract, effective February 2019. The security agency is a corporation duly recognized and existing under the laws of the Philippines and provides manpower complement, firearms, extra magazine holders, ammunition, communication/radio equipment, vehicles, and others. Under explicit terms, the corresponding penalties shall be imposed in case of failure to provide and comply with the agreement's provisions. CAAP was authorized to deduct from the billing for the period.

25.4. Audit disclosed that Management did not impose the full extent of penalties following the Table of Offenses. The Area Center implemented the unnumbered memo from the former Director General of CAAP, which limited the penalties to ten percent of each progress billing instead of the actual amounts for the violations.

25.5. Penalties in the amount of P33.910 million remained uncollected despite the issuance of the first demand letter on May 11, 2022, in the amount of P16.660 million, for the period February 2019 to December 2020 and February 2021 to May 2021. Moreover, the Accounting Office did not recognize the receivable in the books of the Area Center.

25.6. Inquiry from the Accounting Office revealed that another demand letter dated July 14, 2022, for the period January and June to December 2021, in the amount of P16.323 million, was sent through registered mail on August 20,

2022, since the assigned Officer In-charge in the Area was reluctant to receive the summary of violations committed due to lack of authority.

- 25.7. The Audit Team further noted that the uncollected penalty covered with demand letters was only P32.983 million while the total uncollected penalty reached P33.910 million, thus, a discrepancy of P0.927 million.
- 25.8. It is worth noting that effective February 2022, CAAP deducted the actual penalties for violations incurred from every progress billing as Management's implementation of the audit recommendation.
- 25.9. Nevertheless, had Management strictly enforced the collection of the correct penalties provided for in the terms and conditions of the agreement, accumulation of the same would have been avoided. More funds would have been available to finance other priority projects, plans, and programs of the CAAP.
- 25.10. Based on the foregoing, Management needed to consider the matter as one of its priorities since the original contract ended in February 2022, and security services are only being rendered under monthly extensions of up to one year as authorized by law.
- 25.11. Furthermore, the Accounting Office was advised to follow up on the previous request for guidance on the actual and correct computation of the uncollected penalties to properly recognize the related receivables and record the same in the books of accounts.
- 25.12. Management was urged to consider the collection of the said penalties as one of their priorities to have additional funds to finance other priority plans, programs, and projects of the Authority.
- 25.13. We reiterated our recommendation, with modification, that AC I Management direct the Finance personnel to:**
 - a. Deduct penalties and the amounts for the actual violations based on the Table of Offenses/Violations and Penalties from succeeding billings considering that these are explicitly identified in the contract;**
 - b. Issue a demand letter/s for the collection of the unpaid penalties.**
- 25.14. We further recommended that AC I Management:**
 - a. Coordinate with the Enforcement and Legal Service of CAAP-HO for assistance/guidance in undertaking possible legal actions against the Service Provider to settle the penalties considering that the contract agreement ended in February 2022;**
 - b. Require the Accountant to record in the Authority's books of accounts the uncollected penalties in the amount of P33.91 million to recognize the related receivable properly; and**

c. Require the Accountant to issue another demand letter covering the discrepancy of P0.927 million.

25.15. Management informed the Audit Team that they would coordinate with the Enforcement and Legal Service of CAAP-HO for further assistance/guidance in undertaking possible legal actions against the Service Provider.

26. Absence of periodic review and monitoring on the implementation of the Contracts of Lease for Concession for the leased premises at CAAP-Head Office (HO) and AC V resulted in non-collection of rental fees and other charges by at least P1.174 million and P40,577, respectively.

26.1. The 2017 CAAP Concession Policy Manual aims to standardize the application process and provide direction to the Concessions-in-Charge, offices, and other parties involved in contract administration and governing policies and regulations established and customary to the Authority. The CAAP-HO Business Development Division (BDD), as Concession-in-Charge, would function as the overall manager of the concession program. While the CAAP-HO Corporate Planning Office (CORPLAN) would impose a performance management and development standard with every concession agreement it enters into.

26.2. Review of the Contracts of Lease for Concession (CLC) showed the terms, conditions, and sanctions as follows:

“3.2 Accrual. At the end of every calendar month, the obligation to pay monthly fee/charge shall accrue and be payable without a demand.

3.3 When to Pay. The monthly payments’ billing date is on the last day of the month, which shall be paid by LESSEE to LESSOR within 30 calendar days of the following month, with or without the issuance of the billing statement. It is expressly agreed and understood that the payment of the rental herein stipulated shall be made by the LESSEE without delay.

Xxx

3.10 Termination. Failure on the part of the LESSEE to pay any rental fee 60 days from the due date thereof shall be considered a sufficient ground for stoppage of use of the Leased Premises and automatic termination of this Contract without need for further notice and court action.

xxx

3.12 Delinquent accounts due to the LESSEE shall earn interest of two per cent compounded monthly from the default date.”

26.3. Analysis of the *Rental/Lease Income* account revealed that at least P1.174 million of rental fees from CY 2017 to CY 2022, excluding penalty and other charges, were unbilled/uncollected in CAAP-HO as of December 31, 2022.

26.4. The Audit Team noted that the unbilled/uncollected rental fees for CYs 2017-2021 accumulated due to the absence of periodic review and monitoring of the implementation of the CLC. The Audit Team also found out the following:

1. The CAAP-HO BDD allowed the renewal of lease terms despite the lessees' non-submission of complete documents such as the Certificate of No Outstanding Balance; non-compliance with stipulated terms and conditions of lease contracts; and non-payment of rental fees and charges. The existence of such conditions was grounds for rejection or disqualification of concessionaires as provided in the Concession Policy Manual;
2. The CAAP-HO Accounting Division (AD) did not promptly and accurately issue the corresponding Billing Statements to the lessees; and
3. The CAAP-HO AD could not prepare the Subsidiary Ledgers (SL) of other concessionaires due to CAAP-HO BDD's non-submission of copies of CLCs.

26.5. CAAP-HO BDD admitted their lapses and explained that due to the lack of personnel and the bulk of transactions handled by the office, they were delayed in the processing of renewal and approval of CLCs, thus resulting in the late submission of CLCs to CAAP-HO AD. The absence of proper and regular coordination between the CAAP-HO BDD and the CAAP-HO AD also aggravated this.

26.6. Meanwhile, in AC V, four concessionaires in Virac and Naga airports were also delinquent in their payment of rental fees for three to 13 months, thus resulting in a total unbilled/uncollected rental income of P40,577 as of December 31, 2022.

26.7. The accumulation of uncollected rental fees and other charges could have been avoided had there been a periodic review of concessionaires' compliance with the terms and conditions of the contract and monitoring of the payments they made. Unbilled/uncollected rental fees and other charges deprived the Authority of funds that could have been used in its operations.

26.8. We recommended that Management instruct the following:

- a. **CAAP-HO Internal Audit Services (IAS) conduct a periodic review of operations, processes, and activities, particularly those embodied in the CAAP Concession Manual, and formulate/recommend the necessary improvement/s to it, if any, for the approval of the Top Management/Board of Directors;**
- b. **CAAP-HO AD:**
 - i. **Expedite the preparation and issuance of billing statements and, henceforth, ensure the timely and regular issuance of billing statements to all concessionaires and the preparation of complete and accurate SLs;**

- ii. **Enforce the collection of unpaid rental fees and other charges, including the penalty and interest provided under Section 3.12 of the CLC;**
- iii. **Exert diligent effort to collate all the relevant documentation, including the prior years' CLCs of other concessionaires in CAAP-HO, to determine the exact amount of rental fees and charges from the inception of the contracts up to the subsequent renewals of the lease term; and**
- iv. **Monitor the payments made by Concessionaires to ensure that said payments are in accordance with the lease terms per CLC.**

c. CAAP-HO BDD:

- i. **Strictly comply with the procedures in processing the renewal of CLC;**
- ii. **Verify and ensure that all lessees strictly comply with the documentary requirements before renewing any contract;**
- iii. **Regularly provide the CAAP-HO AD and the Office of the Auditor copies of the CLCs and all necessary documents to determine the exact amount of rental fees and charges due from the lessees; and**

d. Accounting/Billing Units in AC V to require the collection of unpaid rentals from concessionaires with long-time dues and ensure the issuance of demand letter/s for delinquent accounts.

26.9. Management commented that the recommendation for CAAP-HO IAS to conduct a periodic review of operations, processes, and activities particularly those embodied in the CAAP Concession Manual should be undertaken as a separate evaluation or appraisal to determine whether internal controls are properly designed and operated.

26.10. Further, as part of the tasks covering the improvement of the agency's revenue, Management commented that the CAAP-HO IAS already conducted an audit of concessionaires at selected CAAP airports in FY 2021, and they were able to raise various issues and recommendations to the CAAP-HO BDD. Meanwhile, CAAP-HO IAS agreed to include in the proposed FY 2024 budget and program the audit of concessionaires.

26.11. The CAAP-HO AD likewise commented that updating SLs and retrieving the necessary documents to ensure accurate computation of unbilled rental fees and charges were ongoing.

26.12. Moreover, the CAAP-HO BDD also committed to review the renewal process of CLCs. They also planned to integrate the clearances issued by the Accounting and Security Offices in the application form for renewal. The CAAP-HO BDD

would also assign personnel who would be responsible for the submission of copies of CLCs to the CAAP-HO AD as well as to the Office of the Auditor.

27. CAAP did not file the creditable withholding taxes amounting to P27.041 million as tax credits in its annual income tax return, thus exposing the Authority to the risk of loss due to foregone tax credits.

- 27.1. Section 57 (B) of Chapter IX of The NIRC of 1997, as amended, defines Withholding of Creditable Tax at Source as a “tax on the items of income payable to natural or juridical persons, residing in the Philippines, by payor-corporation/persons as provided for by law; Provided, beginning January 1, 2019, the rate of withholding shall not be less than one per cent but not more than fifteen per cent of the income payment.”
- 27.2. The Revised Chart of Accounts for Government Corporations defines Withholding Tax at Source (WTaS) as an account that is “debited to recognize the amount of creditable withholding tax deducted by an entity, which is designated by the BIR as authorized agent, from rental, interest income from loans, service fees on deposit of notes, supervisory and other bank fees, income from payments and settlements transactions or other services to be credited by BIR upon receipt from the entity of proof of remittance to the BIR together with BIR Form No. 2307. This account is credited upon application of the excess previous tax payments against income taxes payable to the BIR and/or adjustments.”
- 27.3. Considering the foregoing, creditable withholding taxes are advance income tax payments of an entity. Even before filing the income tax return, a taxpayer had already remitted a portion of its income tax liability through withholding agents who withheld and remitted the same to the BIR. The amount is applied as a tax credit in the income tax returns of an entity by presenting BIR Form No. 2307.
- 27.4. Section 229 of the NIRC discussed the Recovery of Tax Erroneously or Illegally Collected. That in any case, no such suit or proceeding shall be filed after the expiration of two years from the date of payment of the tax or penalty regardless of any supervening cause that may arise after payment: Provided, however, That the Commissioner may, even without a written claim therefor, refund or credit any tax, where on the face of the return upon which payment was made, such payment appears to have been erroneously paid.”
- 27.5. The WTaS account amounted to P47.417 million as of December 31, 2022. In the case of CAAP, this balance represents an additional tax credit to be utilized for future tax liabilities of the Authority, considering its operating net loss since CY 2020. The audit disclosed that CAAP did not apply P27.041 million or 57.03 per cent of the balance as a tax credit to be deducted against income tax liabilities of CAAP to the BIR.
- 27.6. Further, we observed that P9.176 million out of the P27.041 million refers to creditable withholding taxes for CY 2020. This is concerning, considering Section 229 of the NIRC specifically mentioned that an entity is only given two

years from the date of payment to file a claim for erroneously assessed or collected taxes.

- 27.7. The Audit Team noted that the Accounting Division did not employ any mechanism or internal control to monitor whether these tax credits for a particular quarter or year were duly applied to the income tax returns.
- 27.8. All things considered, the issue exposed CAAP to loss due to foregone tax credits should the BIR deny CAAP's claim on filing previous years' creditable withholding taxes as tax credits.
- 27.9. We recommended and Management agreed to direct the Department Manager III, Finance Department to:**
- a. Submit an explanation/justification as to why the tax credits were not applied in CAAP's income tax returns;**
 - b. Immediately coordinate with the BIR to file tax credits amounting to P27.041 million recorded under the WTaS account; and**
 - c. Moving forward, ensure proper monitoring of creditable withholding taxes in the WTaS account.**
- 28. Taxes withheld on compensation from officers and employees, Government Money Payments (GMP), Value-Added Tax (VAT), Percentage Tax, and for the expanded withholding taxes from various suppliers amounting to P5.923 million in CAAP-HO were not remitted to the BIR within the prescribed period, thereby exposing the Authority to unnecessary penalties and interests.**
- 28.1. This is a reiteration of the audit observation embodied in CY 2021 AAR.
- 28.2. 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.
- 28.3. 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.
- 28.4. Lastly, COA Circular No. 2018-003 dated November 21, 2018, prescribes the use of the Internal Control Standards for the Philippine Public Sector (ICSPPS). The ICSPPS states that the head of the agency is directly responsible for all agency activities, including designing, implementing, maintaining, and evolving a system of evaluation of internal control systems, as well as implementing corrective actions.
- 28.5. Between December 2021 to November 2022, CAAP-HO withheld a total of P300.489 million which shall all be remitted in CY 2022. Audit, however, disclosed that out of the said amount, CAAP was only able to remit a total of

P294.566 million, leaving a balance of P5.923 million unremitted as of CY 2022, contrary to the guidelines mentioned above. Details are shown in Table 30.

Table 30. Taxes Withheld Versus Taxes Remitted

Withholding Taxes on	Taxes Withheld Dec. 2021 - Nov. 2022	Withholding Taxes Remitted	Difference
Withholding Tax on Compensation	P 111,259,281	P 106,373,804	P 4,885,477
Expanded Withholding Tax	49,859,659	46,481,032	3,378,628
GMP – VAT and Percentage Tax	139,369,794	141,710,732	(2,340,938)
	P 300,488,734	P 294,565,568	P 5,923,167

- 28.6. We noted several instances where withholding taxes from accounts payable were not timely recorded or not remitted in the following month. The Accounting Division personnel responsible for the remittances confirmed this. Examination showed that the taxes withheld by CAAP-HO and recorded in the Due to BIR account differs from the amount remitted to the BIR monthly. There were months when the total amount of remittance exceeded the total amount of taxes withheld, and vice-versa.
- 28.7. Likewise, the audit also disclosed that the Accounting Division did not monitor the withholding taxes to determine whether all taxes withheld for a particular month were duly remitted to the BIR. This is contrary to the provision set in the ICSPPS, which requires the installation of internal control.
- 28.8. The filing and remittance of withholding taxes beyond the prescribed period and/or the non-filing and non-remittance thereof, exposed the Authority to penalties and interests.
- 28.9. We reiterated our prior year’s recommendation, with modification, and Management agreed to instruct the Department Manager III, Finance Department in CAAP-HO to:**
- Designate personnel who will perform regular monitoring of withholding taxes to ensure all taxes withheld for a particular month are duly remitted to the BIR in the following month. We also recommended that the said personnel directly report any irregularities noted to the Department Manager III, Finance Department, to ensure compliance with existing tax laws;**
 - Determine, along with the Accounting Division, the amount of withholding taxes that are yet to be remitted to the BIR and remit the same immediately to avoid additional penalties and surcharges; and**
 - Strictly adhere to existing guidelines on the timely remittance of withholding taxes, moving forward.**

28.10. Management commented that around P4.700 million out of P5.923 were already identified and will be remitted to the BIR. Meanwhile, the remaining balance is still being reconciled.

28.11. The Audit Team will validate Management's compliance as soon as documents are submitted to support their assertion.

29. Disallowances and charges which have become final and executory in CAAP-HO totaling P6.778 million remained unsettled due to the laxity of Management in enforcing its settlement or recovery contrary to Section 7.1.3 of COA Circular No. 2009-006 dated September 15, 2009.

29.1. This is a reiteration of prior years' observations embodied in the CY 2019 and CY 2020 AARs.

29.2. Section 7.1.3 of COA Circular No. 2009-006 *Prescribing the Use of the Rules and Regulations on Settlement of Accounts* requires the Agency Head to enforce the COA Order of Execution (COE) by requiring the withholding of salaries or other compensation due the person liable in satisfaction of the disallowance or charge.

29.3. Audit disclosed that receivables arising from disallowances and charges in CAAP-HO, which have been rendered final and executory, totaling P6.778 million, have remained unsettled as of December 31, 2022. Out of the said amount, P5.131 million pertains to disallowances where Appeal Memorandum/petitions for review were filed before this Commission after an NFD was already issued.

29.4. Meanwhile, only P0.756 million of the amount had been recovered as of December 31, 2022. For CY 2022 alone, only P90,784 had been collected from these disallowances/charges.

29.5. Our examination revealed that, despite the issuance of COEs, deduction of the disallowed amounts from salaries was imposed only on some of the persons liable who are still connected with the Authority. Further, while we understand that most persons deemed liable for the subject disallowances/charges are no longer connected with the Authority, we observed that no demand letters were issued to initiate the settlement of the disallowances/charges.

29.6. The laxity of Management in enforcing the recovery of the disallowances and charges is contrary to the provisions of the aforecited COA circular. Moreover, the non-settlement of these receivables might result in unnecessary loss of CAAP's funds, which could have been used to implement its programs, projects, and activities.

29.7. We recommended and Management agreed to strictly adhere to the Rules and Regulations on the settlement of accounts prescribed under COA Circular No. 2009-006 by directing the:

- a. Chief Accountant to withhold the salaries or any money due to ALL persons liable, who are still connected with CAAP, for the settlement of their liabilities; and**
- b. Concerned CAAP officials to initiate and exhaust all legal means to collect/recover the disallowances and charges by sending demand letters, filing administrative/criminal actions in case of unjustified refusal to settle their liabilities, and/or other appropriate legal actions.**

30. The absence/lack of policies, a manifestation of weak internal control, resulted in various deficiencies in the grant, utilization, and liquidation of *Petty Cash Fund (PCF)*, thereby exposing government funds to potential loss, misuse, and/or misappropriation.

30.1. Section 1 of Administrative Order No. 199 dated March 29, 1989, *Directing the Strengthening of the Internal Control Systems of Government Offices, Agencies, Government-Owned or Controlled Corporations, and Local Government Units in their Fiscal Operations*, provides that each and every office, agency, corporation, and local government unit is mandated to strengthen its internal control system and/or organize systems and procedures. It shall be the direct responsibility of the agency head to install, implement, and monitor a sound system of internal control.

30.2. In the audit of CY 2022 accounts and transactions of CAAP, we conducted a cash examination on the accounts and accountability of the Accountable Officers (AO). We noted various deficiencies due to the lack or absence of policies that exposed government funds to potential loss, misuse, and/or misappropriation. These deficiencies will be discussed in detail later in this audit observation.

30.3. We recommended that Management:

- a. Instruct the CAAP-HO Corporate Planning Office, in coordination with other relevant offices, to develop and recommend a policy, for Management to adopt and implement, regarding cash management and controls encapsulating the requirement outlined in Section 4 of PD 1445, COA Circular Nos. 97-002 and 2012-001, and other applicable rules and regulations, including authorization and approval procedures, verifications, reconciliations, reviews of processes and activities, and documentation; detailing therein the responsibilities of the Management, the Accountant, the AOs, and other concerned employees, in the granting, utilization, liquidation, replenishment, handling, custody, and disposition of the funds. Considering that these are public funds, including a provision for administrative and legal sanctions that CAAP may impose in case of non-compliance;**

- b. **Require the Accountant/s, Internal Auditor/s, and AOs to attend training/seminars on Cash Management and Control Systems or any course designed for Accountable Officers to give them a better understanding of their responsibilities, the knowledge, and skills they need to perform their job, and for them to develop an appreciation of internal control system; and**
 - c. **Direct the Internal Auditor to review and evaluate the effectiveness of the internal control system of CAAP, introduce and/or recommend to Management for its improvement to mitigate identified risks in cash management.**
- 30.4. Management informed that the policy on the granting, utilization, and liquidation of PCF is being reviewed and carefully studied and would be issued soonest, immediately implemented, and regularly monitored.

1) On the granting and utilization of cash advances for PCF:

a) Disbursements out of the PCF in the total amount of P380,935 without an approved Petty Cash Voucher (PCV)

- 30.5. Section 4.5 of PD No. 1445 provides that disbursements or disposition of government funds or property shall invariably bear the approval of the proper officials. While COA Circular No. 2012-001 requires that payments out of PCF shall be made through a PCV.
- 30.6. During the cash count, we noted that seven PCCs disbursed the total amount of P380,935 from the PCF without approved PCV. The PCCs admitted that funds were already disbursed before PCVs were accomplished and approved due to the voluminous transactions they handled.
- 30.7. We emphasized that unauthorized disbursement of funds and/or not approved by proper officials, and without the necessary supporting documents, is contrary to the provisions of PD 1445 and not in accordance with existing rules and regulations, hence, irregular.
- 30.8. We recommended and Management agreed to instruct all PCCs to ensure that payment/s out of the PCF be made only when the requestor presents a duly approved PCV.**

b) Regular expenses paid out of PCF

- 30.9. Section 4.3.2 of COA Circular No. 97-002 states that the cash advance for petty operating expenses shall not be used to pay for regular expenses. Moreover, CAAP Authority Orders designating the AOs as PCCs provide that “all spare parts and accessories used for regular repairs and maintenance must be purchased thru a regular procurement process.”
- 30.10. Audit revealed that expenses in the total amount of P0.704 million, consisting of repairs and maintenance incurred for the period March to July 2022 totaling P0.525 million, and office/computer supplies and consumables amounting to

P178,315 were purchased through the PCF. These should have been procured through various modes of procurement, under RA 9184 also known as the *Government Procurement Reform Act*, as indicated in the FY 2022 approved Annual Procurement Plan (APP). Hence, should not have been paid out of the PCF. We also observed that Certificates of Emergency Purchase were attached to the vouchers. However, it is implausible that all the expenses for repairs and maintenance and the supplies were “exceptionally urgent” considering that these are regular expenses that under ordinary circumstances could be paid by check when properly planned, as these expenses could be anticipated and not emergency in nature. This practice gave the impression that this was purposely done to circumvent the requirements of law, rules, and regulations, particularly the necessity of competitive bidding and/or the requirements for alternative modes of procurement.

30.11. The same was observed in AC X. Audit of the replenishments for February to August 2022 showed that the fund was used to pay for regular operating expenses such as office supplies and expenses for repairs/maintenance of vehicles.

30.12. We recommended that Management:

- a. Instruct the PCCs in CAAP-HO and AC X to refrain from using the Petty Cash Fund to pay for regular and recurring expenses; and**
- b. Direct the Supply and Procurement Divisions to carefully plan and schedule the timely procurement of goods and services, particularly those items included in the Project Procurement Management Plan and approved Annual Procurement Plan, to serve the demands of the requesting offices and prevent the frequent resort to emergency purchases.**

30.13. Management acknowledged that there were instances that they procured supplies through the PCF due to unavailability of stock at the CAAP-HO Supply Division or from Procurement Service - Department of Budget and Management (PS-DBM), and delays in deliveries. In the case of ANS' procurement of spare parts through PCF, Management commented that machine breakdown could not be foreseen. Spare parts for the ACs were procured in Manila due to the unavailability of stocks in the ACs.

30.14. We maintained our position that petty cash should not be used to pay regular expenses. It should be used only for payments in small amounts and/or when it may be very difficult, impractical, or impossible to make payments by check.

30.15. Further, we requested that henceforth, Management carefully plan and schedule the timely procurement of goods and services, considering the delays in the process and delivery, stock availability, and reorder point, and maintain buffer stock, particularly those items included in the Project Procurement Management Plan and approved Annual Procurement Plan, to serve the demands of the requesting offices and prevent the frequent resort to emergency purchases.

30.16. Management agreed and stated that common-use supplies unavailable from the PS-DBM will be consolidated and forwarded to the Contract and Canvass Committee for procurement.

c) *The amount of P231,871 disbursed for purposes other than what was authorized*

30.17. Section 5.7 of COA Circular No. 97-002 provides that the cash advance shall be used solely for the specific legal purpose for which it was granted.

30.18. The audit revealed that in several transactions totaling P231,871, PCF was used to pay the expenses for various training/courses, which are not among the intended purpose specified in the PCCs' Authority Orders.

30.19. We emphasized that the disbursement of funds other than for its authorized purpose is deemed irregular and illegal.

30.20. We recommended, and Management agreed to:

a. Enjoin all PCCs to refrain from disbursing PCF for purposes other than those stated in the Authority Orders; and

b. Designate Special Disbursing Officers to be granted special cash advances to defray expenses for the special purpose/time-bound undertakings such as in-house training and seminars.

d) *Absence of policy on the disbursement of meals and snacks during the conduct of meetings*

30.21. 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* defines:

"4.1 Definition [of unnecessary expenditures]

The term pertains to expenditures which could not pass the test of prudence or the diligence of a good father of a family, thereby denoting non-responsiveness to the exigencies of the service. xxx
An expenditure that is not essential or that which can be dispensed with without loss or damage to property is considered unnecessary.
xxx

[xxx]

5.1 Definition [of excessive expenditures]

The term 'excessive expenditures' signifies 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.”

30.22. As of September 30, 2022, the Authority had already incurred a total of P3.643 million of representation expenses for meals and snacks during meetings. A closer examination of these expenditures disclosed the following observations:

30.22.1 There was no policy or internal control to ensure that the claims or disbursements for snacks and meals during meetings were necessary and not excessive.

30.22.2 Based on Notices of Meetings and attendance sheets, many were regular intra-office meetings. Meals and snacks served for these should be provided with a limit since the activities were part of the regular duties of the concerned employees/officials that should be conducted to realize its targeted outputs.

30.22.3 Disbursements for snacks and meals through the Petty Cash Fund were not supported with an approved Purchase Request (PR) as required under Section 1.1.2 of COA Circular No. 2012-001. Similarly, we noted that Minutes of Meetings or any post-activity report/s were not attached to disbursement vouchers to help establish that a meeting was conducted.

30.23. While we acknowledged that the incurrence of representation expenses for meetings could not be entirely avoided, the practice of relatively providing meals at most meetings raised concerns about whether all the disbursements were indeed necessary. This was compounded by the lack of policy or internal control measures to ensure that government funds were appropriately safeguarded from abuse and misuse as required under the Internal Control Standards for the Philippine Public Sector (ICSPPS).

30.24. Meanwhile, the lack of approved PRs before disbursements cast doubt on the validity and necessity of the meals procured.

30.25. We recommended, and Management agreed to:

- a. **Instruct the CAAP-HO Corporate Planning Office, in coordination with other relevant offices, to formulate a policy that will serve as CAAP’s control mechanism on the disbursements for representation expenses, to include, among others, the following:**
 - i. **Specific guidelines or criteria on what meetings/proceedings may entail costing for meals and snacks to ensure that disbursements related to it are indeed necessary.**
 - ii. **Allowable amount to be spent for snacks and meals to ensure costs are within budget and not at an excessive amount.**
 - iii. **Documentary requirements necessary for the disbursement. Enumerate all the necessary documents as required under**

relevant laws, rules, and regulations, and other documents to establish that the meeting/conference/seminar was indeed conducted, such as Notice of Meeting, Agenda, Attendance Sheet, Minutes of Meetings, or post-activity reports.

- b. Direct all Petty Cash Custodians to secure the necessary Purchase Request prior to disbursements.**

2) On the liquidation of cash advances and replenishments of PCF:

a) Disbursements not supported with complete documentation contrary to COA Circular No. 2012-001

30.26. Section 4.6 of PD No. 1445 requires that claims against government funds shall be supported with complete documentation, while Section 1.2 of COA Circular No. 2012-001 dated June 14, 2012, Prescribing the Revised Guidelines and Documentary Requirements for Common Government Transactions, enumerates the complete documents to support the liquidation of cash advances to establish the validity of claims.

30.27. The Audit Team noted that various items purchased out of the PCF lacked the necessary supporting documents such as Purchase Requests, Certificate of Inspection and Acceptance, Report of Waste Materials, and Summary/abstract the of canvas.

30.28. Further, various AC V reimbursements from PCF were not supported with official receipts (OR) and/or Certification of Expenses Not Requiring Receipts (CENRR); instead, delivery receipts or temporary receipts were attached to the PCV.

30.29. Sufficient and relevant documentation gives the approvers adequate details to ensure that a transaction is reasonable and accurate. On the other hand, transactions with incomplete supporting documents cast doubt on their legality, existence, and validity.

30.30. We recommended that Management direct CAAP-HO and AC V:

- a. Submit the lacking supporting documents on payments made from the PCF; and**
- b. Henceforth, direct the Accountable Officers and the Accountant to ensure that complete supporting documents, as prescribed under COA Circular No. 2012-001, are attached to the vouchers.**

30.31. Management informed that a checklist of documentary requirements for each type of transaction set forth under COA Circular No. 2012-001 should be attached to liquidation documents to ensure the completeness of supporting documents.

b) Splitting of transactions above P15,000 to avoid exceeding the ceiling to be disbursed through PCF

30.32. Section 1.1.2 of COA Circular No. 2012-001 states that payments out of PCF, which shall be made through a Petty Cash Voucher, shall be allowed only for amounts not exceeding P15,000 for each transaction, except when a higher amount is allowed by law and/or specific authority by the Commission on Audit. **Splitting of transactions to avoid exceeding the ceiling shall not be allowed.** (emphasis supplied)

30.33. Audit of replenishments revealed that there were transactions amounting to above P15,000 but were split into two or more transactions to make it appear that each payment/transaction is less than P15,000 to be disbursed through PCF.

30.34. Validation and verification of the supporting documents attached to the replenishments showed Official Receipts (OR) with consecutive serial numbers issued on the same day by the same merchant to purchase the same items. These were single transactions, but payments were split into two or more to avoid exceeding the ceiling amount to be disbursed through PCF. This practice of splitting transactions is contrary to the provisions under Section 1.1.2 of COA Circular No. 2012-001, hence, deemed irregular.

30.35. We recommended that Management adhere to COA Circular No. 2012-001 and stop the practice of splitting transactions to circumvent applicable rules and regulations.

30.36. Management informed that a memorandum regarding the matter would be issued.

c) PCF unutilized for more than two years was not liquidated in contrast to COA Circular No. 97-002 dated February 10, 1997

30.37. Section 5.7 of COA Circular No. 97-002 requires that when a cash advance is no longer needed or has not been used for two (2) months, it must be returned to or refunded immediately to the collecting officer.

30.38. The PCC, Office of the Central Coordinating Committee, was granted a cash advance for PCF in February 2020. It was noted that there was no disbursement since then until March 2022 or two years after that. The PCC explained that the PCF was not utilized due to consecutive lockdowns brought about by the COVID-19 pandemic. Nevertheless, the fund was not returned to the collecting officer.

30.39. We emphasized that keeping unnecessary petty cash might expose the fund to loss, misuse, and/or misappropriation.

30.40. We recommended, and Management agreed to instruct the Accountable Officers to liquidate/return any cash advance that is no longer needed or has not been used for two months as prescribed by COA Circular 97-002.

3) On the handling, custody, and disposition of records:

a) Prescribed cashbook/PCF Record not prepared/maintained by some PCCs

30.41. Section 6.1 of COA Circular No. 97-002 provides that a newly-appointed or designated AO shall start with a new cashbook and before discharging his duties, the new AO shall be briefed by the Accountant on the proper recording of the transactions and other matters related to his work.

30.42. The Audit Team observed that the PCC did not prepare nor maintain the prescribed cashbook/PCF Record. The PCC explained that they were not trained/briefed by the Accountant before their assumption as PCC; neither did the previous PCC turned-over the records.

30.43. Proper handling and disposition of the cashbook or its equivalent are essential for a PCC to monitor/summarize the replenishments and disbursements from the petty cash fund.

30.44. We recommended, and Management agreed to:

- a. Enjoin all PCCs to prepare and maintain the prescribed cashbook/PCF record immediately; and**
- b. Direct the CAAP-HO and AC X Accountants to brief/orient newly-appointed or designated Accountable Officers regarding the roles and responsibilities as such.**

b) Unrecorded disbursement in the Petty Cash Fund Record (PCFR)

30.45. Section 6.2 of COA Circular No. 97-002 provides that the AO shall maintain separate cashbooks for salaries, wages, allowances, etc. The AO shall record the transactions in the prescribed cashbook daily for petty operating expenses. He may record each invoice/ receipt/voucher individually or the total disbursements for the day, depending on the volume of the transactions.

30.46. During the cash count, the PCCs presented 53 PCVs amounting to P71,993; however, the transactions were not recorded in the PCFRs.

30.47. Accurate, complete, and timely recording of PCF transactions is crucial to ensure the reliability of records and the existence of cash.

30.48. We recommended, and Management agreed to direct the Accountable Officers to regularly and accurately record all PCF transactions in their respective PCFRs.

c) PCFR not reconciled vis-à-vis the cash on hand daily

30.49. Section 6.3 of COA Circular No. 97-002 requires that the AO shall reconcile the book balance with the cash on hand daily. He shall foot and close the books at the end of each month.

30.50. During the cash count, the Audit Team noted variances between the cash balance per PCFR and the cash on hand. The PCCs explained that they could not regularly update or record all disbursements in the PCFR nor reconcile the PCFR and the cash on hand daily due to the voluminous transactions they handled. Some PCCs conducted the reconciliation every month. Yet, variances were still noted.

30.51. We emphasized that reconciliation is part of the proper handling and disposition of the cashbook, or its equivalent, which is very important for a PCC to monitor/summarize the replenishments and disbursements from the petty cash fund and ensure the reliability of records and the existence of cash.

30.52. We recommended, and Management agreed to direct the Accountable Officers to reconcile the PCFR cash balance with the cash on hand daily.

d) PCFR not reconciled with accounting records

30.53. Section 6.3 of COA Circular No. 97-002 requires that the AO and the Accountant shall reconcile their books of accounts at least quarterly.

30.54. During the cash count, variances were noted between the cash balance per PCFR of the PCC and the Subsidiary Ledger maintained by the Accountant.

30.55. We recommended, and Management agreed to direct the Accountant and the Accountable Officers to reconcile their books periodically.

31. Non-compliance with rules in handling dishonored checks prescribed under COA Circular No. 91-368 dated December 19, 1991.

31.1. The Bangko Sentral ng Pilipinas (BSP) appointed and designated the Philippine Clearing House Corporation (PCHC) as a processing agency and exclusive provider of nationwide Magnetic Ink Character Recognition (MIRC)/Automated Clearing Facility. All banks shall observe the clearing procedures per the PCHC Clearing House rules and regulations for clearing checks. PCHC issued Clearing House Operating Memorandum (CHOM) No. 15-460.A dated September 2, 2015, on *Non-acceptance of Check with Erasure, Alteration, and/or Deficiency*.

31.2. On the other hand, Article 3 of GAAM Volume I under COA Circular No. 91-368 dated December 19, 1991, *Instituting a Government Accounting and Auditing Manual (GAAM) and prescribing its use*, requires that before issuing an official receipt, the Collecting Officer (CO) shall carefully scrutinize the checks presented to him and make sure that it is complete and correct, particularly as to date, signature or countersignature, and amount in words and figures appearing on the face of the check. Wherever a payor has a record of a previously dishonored private check drawn by him, even if such check has already been settled, any private check presented by him shall no longer be accepted. In such case, the payor shall be required to pay only in cash or by certified check. Whereas, Article 4 provides the rules for handling dishonored checks.

- 31.3. Validation of the Authority's collections and deposits disclosed that 14 customer checks, aggregating P1.455 million, were accepted as payment for various fees. Out of 14, 12 checks totaling P1.363 million were dishonored by the drawee banks due to lack of signature, the wrong amount in words, alterations on the details of the checks, and/or the checks were either stale or postdated. The other two were drawn against insufficient funds (DAIF).
- 31.4. The defects on the face of the dishonored checks could have been easily noticed/detected had the COs prudently examined them upon presentment by the payor and before the issuance of Official Receipts (OR).
- 31.5. Contrary to the rules, we observed that the Collection Section of the Cashiering Division did not require the payors to pay only in cash nor deny acceptance of checks from them. The audit revealed that one check issued as payment for Domestic Air Navigation Charge under Security Bank Check No. 1748885 dated October 5, 2022, amounting to P46,176 presented on October 17, 2022, was dishonored due to DAIF. Corresponding OR No. 303797 was subsequently canceled. The same check was re-presented, OR No. 333942 was issued, and the check was redeposited on December 6, 2022, but still dishonored. OR No. 333942 was also canceled.
- 31.6. We noted that Notices of Dishonor were not issued after the checks were dishonored, except for SB Check No. 0001748885, issued on December 23, 2022, on its second presentment. Notice was issued after we raised the matter. The Cashiering Division explained that instead of issuing a Notice of Dishonor, they informed the drawers that the checks were dishonored via call/email/text message.
- 31.7. Likewise, the report of dishonored checks prescribed under the Circular was not prepared. In lieu thereof, the Cashiering Division submitted a list of dishonored checks with details of the date of returned check advice from the depository bank, the reason for return, the amount, remarks, and the name of the CO responsible. However, we noted that said list was incomplete as it did not include all the dishonored checks. Hence, the list could not be fully utilized for monitoring and recording purposes.
- 31.8. Security Bank Check No. 1748885, deposited and dishonored twice, was recorded in the RCD and the books of accounts. But the reversal of the entry made for the dishonored check and the cancellation of ORs were not recorded in the books of accounts. The debit memos on the dishonored check remain as reconciling items in the Bank Reconciliation Statement for October to December 2022, thereby understating the receivable account and overstating the cash account, both by P92,352.
- 31.9. The above deficiencies noted have exposed the Authority to potential loss.

31.10. We recommended, and Management agreed to:

- a. Direct the Cashiering Division-HO and all Collecting Officers to strictly adhere to existing rules in handling dishonored checks by:**

- i. **Carefully scrutinizing the checks presented for any deficiency, erasure, or alteration, specified in CHOM No. 15-460.A, before accepting them as payment and issuing an OR. Do not accept stale checks and do not issue OR for postdated checks;**
- ii. **Requiring payors with a record of dishonored checks to pay only in cash or by certified checks;**
- iii. **Issuing Notice of Dishonored Checks to the drawer and each indorser;**
- iv. **Preparing periodic reports such as the report of dishonored checks and the list of payors with previously dishonored checks;**
- v. **Recording and reporting dishonored checks and canceled ORs; and**

b. Instruct the Accountant to adjust entries for the dishonored checks and canceled ORs, if warranted.

31.11. Management informed that only one remained unsettled among the dishonored checks for CY 2022. The Collection Division had canceled the OR issued and requested a replacement check.

32. The non-liquidation of cash advances for official travel of Accountable Officers (AOs), as well as the inaction of the Accountant in monitoring the cash advances and ensuring their timely liquidation, was not in accordance with COA Circular No. 96-004 dated April 19, 1996, which exposed the Authority to risk of possible loss or misuse of funds and the misstatement of the Advances to Officers and Employees and the related expense accounts.

32.1. This is a reiteration of the audit observation embodied in the CY 2019-2021 AARs.

32.2. Executive Order (EO) No. 77, s. 2019, re: *Prescribing Rules and Regulations and Rates of Expenses and Allowances for Official Local and Foreign Travels of Government Personnel*, states that the official or employee shall liquidate the cash advance received within thirty (30) days for local travel and sixty (60) days for foreign travel upon their return to permanent official station or to the Philippines, as the case may be.

32.3. Meanwhile, COA Circular 96-004 dated April 19, 1996, prescribes the regulations and rates of allowance for official local and foreign travels of government personnel. The Circular states that the Accountant shall retain a copy of the voucher and itinerary of travel and shall monitor the liquidation of the said cash advances. The COA Circular also states that Accountant shall send a written reminder within ten (10) days before the due date of the liquidation of cash advance pertaining to local or foreign travel and shall delete

the name of the official or employee from the subsequent payrolls if the accountable officer failed to do so.

- 32.4. Audit disclosed that cash advances for official travel of officers and employees of the Authority totaling P1.797 million remained unliquidated beyond the prescribed period as of December 31, 2022. Details are shown in Table 31:

Table 31. Details of Unliquidated Cash Advances.

Location	Amount
CAAP-HO	P 1,185,520
Area Centers	
AC VI	78,068
AC IX	533,517
	P 1,797,105

- 32.5. In CAAP-HO, we observed that the Accounting Division did not have a clear and documented policy or procedure for monitoring and enforcing the timely liquidation of cash advances. We noted that the Accountant did not issue written reminders to the AOs to require them to liquidate their cash advances timely. Likewise, the Accountant did not delete the names of erring officers and employees as required by the above-cited provisions when the AOs did not liquidate their cash advances.
- 32.6. Meanwhile, ACs VI and IX balances included cash advances of officers and employees no longer connected with CAAP as of year-end, amounting to P22,422 and P158,977, respectively.
- 32.7. For the balance in AC VI, Management already issued demand letters to AOs however, they have not received a reply.
- 32.8. Although the Audit Team observed a decline in the unliquidated cash advances of the Authority, the lack of regular monitoring and preventive measures to avoid the accumulation of unliquidated cash advances ultimately led to this recurring issue.
- 32.9. Based on the constant existence of unliquidated cash advances every year, it appears that AOs of the Authority do not take their responsibility seriously as public officers entrusted with public funds. Section 2 of CSC Memorandum Circular No. 23 s. 2019 provides the legal presumption against the non-liquidation of cash advances. It cites Article 217 of the Revised Penal Code in saying that the failure of a 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 had put such missing funds or property to personal use. In addition, Section 5 of the same CSC Circular likewise provides that AOs, who would fail to liquidate cash advances, shall be liable from Simple Neglect of Duty to Gross Neglect of Duty and may be imposed the penalty ranging from suspension to dismissal from government service.
- 32.10. Further, we would like to emphasize that although it is the responsibility of the AOs to liquidate their cash advances, the Accountant, based on the preceding

Circulars, is duty-bound to monitor these cash advances, remind AOs to liquidate the same timely, and in the event of non-compliance, to delete the names of erring AOs from the payroll. As provided under COA Circular 96-004, it is the responsibility of the Accountant to remind the AOs to religiously follow the guidelines on the timely liquidation of cash advances; otherwise, bear the consequences of their non-compliance with it.

32.11. Ultimately, the non-liquidation of cash advances exposed the Authority to unnecessary risk of loss or misuse of funds and the misstatement of the Advances to Officers and Employees and the related expense accounts.

32.12. We reiterated our prior years' recommendations, with modification, and Management agreed to:

a. For CAAP-HO, AC VI, and IX, as applicable:

- i. Formulate, adopt, and implement a policy encapsulating the requirement outlined in COA Circular No. 96-004 dated April 19, 1996, and other applicable rules and regulations, detailing therein the responsibilities of AOs and the Accountant alike in the grant and liquidation of cash advances. Considering that these cash advances entail public funds, including a provision for administrative and legal actions the Authority may take in case of non-compliance;**
- ii. Direct the Accountant to issue a final written reminder to all erring AOs to liquidate their existing cash advances on or before a specific date and provide a valid explanation as to why they have failed to liquidate their cash advances despite the demand; otherwise, cause the deletion of the name of the official or employee from the subsequent payrolls until such time that the cash advance/s for travel has been fully liquidated, in accordance with COA Circular No. 96-004 dated April 19, 1996;**
- iii. If, despite the opportunity to liquidate their outstanding cash advances, the AOs still fail to settle their cash advances, instruct the Enforcement and Legal Service to assess each circumstance of non-liquidation for appropriate legal action, if warranted.**

b. For AC IX to exert all effort to locate the whereabouts of accountable officers who are no longer with CAAP; and

c. For AC VI and IX, request a write-off of the accountabilities of deceased accountable officers and those with long outstanding accounts.

33. Non-compliance with Presidential Decree No. 1445 and COA Circular No. 97-002 dated February 10, 1997, on the grant and liquidation of cash advances, thereby exposing the Authority to risk of misappropriation/loss of assets.

- 33.1. This is a reiteration of the audit observations embodied in the CY 2019-2021 AARs.
- 33.2. Section 89 of Presidential Decree (PD) No. 1445, otherwise known as the *Government Auditing Code of the Philippines*, provides that a cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served.
- 33.3. Further, Section 4.1.2 of COA Circular No. 97-002 dated February 10, 1997, which provides the rules and regulations on the granting, utilization, and liquidation of cash advances, states that no additional cash advances shall be allowed to any official or employee unless the previous cash advance given to him is first settled, or a proper accounting thereof is made. Moreover, Section 5.8 of the same COA Circular requires that all cash advances shall be fully liquidated at the end of each year. Except for petty cash funds, the AO shall refund any unexpended balance to the Cashier/Collecting Officer, who will issue the necessary official receipt.
- 33.4. As of December 31, 2022, the unliquidated cash advances as recorded in the Advances to Special Disbursing Officer account includes the amount of P1.761 million pertaining to advances of officers and employees for specific time-bound projects which should have been liquidated at the end of year pursuant to COA Circular 97-002.
- 33.5. Audit disclosed that a Special Disbursing Officer (SDO) in CAAP-HO had been granted multiple cash advances, contrary to the abovementioned Circular. The Audit team believed that the piling of multiple cash advances to a single SDO contributed to the delay in liquidating cash advances. We emphasized that this had been a recurring observation in prior audit years. The Audit Team had repeatedly recommended that the Authority refrains from continuously granting cash advances to an SDO unless they have liquidated their existing cash advance. Similarly, the Audit Team had already previously recommended that the Authority consider the designation of another SDO, but to no avail. While we respect Management's prerogative on whom they wish to designate as an SDO, the Audit Team stressed that, based on historical data, the subject SDO with five outstanding cash advances had been struggling to liquidate timely her multiple cash advances as early as 2019.
- 33.6. The non-compliance with the provisions above unnecessarily exposed the Authority to the risk of misappropriation of funds.
- 33.7. **We reiterated our prior years' recommendations, with modification, and the Management agreed to:**
 - a. **Designate additional SDOs to handle cash advances for the special purpose/time-bound undertakings to ensure timely liquidation of all cash advances;**

- b. Demand the SDOs to liquidate their cash advances immediately and ensure they know their duties and responsibilities when handling cash advances and the repercussion of non-compliance; and
- c. Formulate, adopt, and implement a policy encapsulating the requirement outlined in COA Circular No. 97-002 dated February 10, 1997, and other applicable rules and regulations, detailing therein the responsibilities of SDOs and the Accountant alike in the grant and liquidation of cash advances. Considering that these cash advances entail public funds, including a provision for administrative and legal actions the Authority may take in case of non-compliance.

34. Absence of Certificate(s) of Title (COT) or, if available, not under the name of the Authority casts doubt on the validity of CAAP's ownership to several lots.

34.1. Paragraph 2, Section 39 of the 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 favor of the government or other evidence satisfactory to it that the title is in the government.”

34.2. Moreover, Chapter 12, Section 85 of RA No. 9497 known as the *CAAP Act of 2008*, provides that any real property owned by the national government used by the then Air Transportation Office shall be transferred and titled in favor of the CAAP.

34.3. Verification of documents revealed that at least 831 lots have no Certificate(s) of Title (COT) or, if available, not under the name of the Authority. Details are presented in Table 32.

Table 32. Lots Without Titles or not in the Name of CAAP

Location	No. of Parcel of Land	Area (sq. m.)
CAAP-HO	3	23,638
AC VI	101	551,041
AC X	352	undetermined land area
AC XI	375	1,834,001
AC XII	An undetermined number of parcels of land	1,866,125

34.4. The Audit Team noted that the certificates of title for CATC and Manila Radar are still under the name of MIAA. Information gathered disclosed that Management was taking actions to implement the 2015 Partition Agreement, transferring MIAA registered properties to the Authority for the CATC Complex, Condominium, and Manila Radar. On the other hand, verification also disclosed that of the 14,394 sq. m. where Tagaytay Radar – Site 1 is located, only 9,800 sq.m. had a Certificate of Title; no documents for the 765 sq. m., while the 3,829 sq. m. had a Deed of Absolute Sale and a Tax Declaration No. 2001-00023-1350 but the said tax declaration remained under the name of the previous owner.

- 34.5. Validation of the “Land” account of AC VI revealed that 101 parcels of land were individually owned and not yet transferred or titled in favor of CAAP as of date but are recorded in the Authority’s books of account. Results of the inquiry disclosed that the CAAP-HO instructed the CAAP AC VI to record the appraised Land despite the absence of proof of ownership in accordance with Philippine Accounting Standard 16, which states that items of property, plant, and equipment should be recognized as assets when it is probable that the future economic benefits associated with the asset will flow to the entity. The accountant also claimed that she had no idea about the transfer status and titling of the said parcels of land.
- 34.6. Audit of AC X disclosed that no complete inventory list or report of all land properties to support the amount reported was provided. Further, AC X is still in the process of land titling with the help of the TWG, however, due to budget constraints, limited workforce, and lack of expertise in the field, AC X could not expedite the process. Thus, the Management was awaiting action and instruction from the CAAP-HO Task Force for the inventory and Turnover of Real Property documents from DOTr to CAAP.
- 34.7. The 375 parcels of land of AC XI are used by the AC in the operation of its airports and house various airport facilities such as passenger and cargo terminal buildings, runways, admin offices, parking lots, aprons, Air Traffic Control (ATC) towers and taxiways among others. A perusal of the Status Report on Land Acquisition and Resettlement Plan submitted to the Audit Team disclosed the following: (a) the absence of necessary documents; (b) the inability to locate original owners; (c) ownership disputes against previous owners; and (d) other legal issues which hinder the processing of these titles.
- 34.8. The land area totaling 1,866,125 sq. m. in AC XII is in the Authority’s possession, control, and held for use. The Audit Team sent a letter dated January 5, 2023, requesting the submission of TCT and any other legal documents, such as the Deed of Absolute Sale and Tax Declaration. Except for the Tax Declaration, no other documents were available for audit purposes. Further scrutiny of the supporting schedule revealed that the land recorded in the books of accounts of the Authority was not provided with complete relevant data such as mode of acquisition, acquisition cost, and date acquired, among others which are relevant information necessary in ascertaining the ownership of the land.
- 34.9. Moreover, the Audit Team would like to reiterate that the titling of parcels of land for AC II and VIII included in CY 2021 AAR were not yet processed. AC II mentioned that delay in the processing thereof was due to a change in the Property Officer, while AC mentioned that retrieval of proof of ownership was ongoing.
- 34.10. Absence of Certificate of Titles to support CAAP’s ownership of several lots casts doubt on the validity of the Land account as of December 31, 2022.

34.11. We recommended that Management direct:

- a. CAAP-HO ADMS, AMD, and ELS to coordinate with MIAA to expedite the transfer under CAAP's name of the Certificate of Titles on the lots used at CATC and Manila Radar;
- b. CAAP-HO ADMS, AMD, and ELS to process the transfer of Certificate of Titles on Tagaytay Radar – Site 1 lot under CAAP's name;
- c. 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;
- d. Area Center VIII to inquire and request from 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 a Deed of Sale only, propose to CRAD that the Registry of Deeds annotate these deeds.
- e. AC VI to justify the long outstanding unsettled transfer and titling of parcels of land and obtain required documentation to facilitate processing thereof;
- f. AC X to conduct a complete inventory of all lots purchased and/or received, expedite the processing of land titles, and request assistance from CAAP-HO to conduct land appraisal/revaluation;
- g. AC XI:
 - i. Submit an updated and detailed (1) status report of the land titling and (2) status report on land acquisition and resettlement plan;
 - ii. Make representation with the CAAP-HO to exert legal means to expedite the processing of the land titles;
- h. AC XII:
 - i. Exhaust all possible legal means to secure TCT of all parcels of land acquired by all airports to confirm its legal ownership. Henceforth, ensure that land acquired is covered with TCTs registered under the name of the Authority;
 - ii. Accounting Unit to update the supporting schedule of the land account to include relevant information necessary in ascertaining the ownership and accurate recording of the account; and

i. ACs X and XII to facilitate surveying lots with undetermined portions to determine the exact parcels of land controlled by CAAP.

- 34.12. Management commented that CAAP-HO AMD forwarded the documents obtained from and certified by the Registry of Deeds (ROD) in Pasay City relative to MIAA-owned occupied by the Authority to CAAP-HO ELS.
- 34.13. CAAP-HO ELS already drafted the Memorandum of Agreement (MOA) between CAAP and MIAA to realize the transfer of the properties. CAAP-HO ELS was planning to meet with MIAA to present the MOA and discuss the implementation of the Partition Agreement dated November 27, 2015.
- 34.14. CAAP-HO AMD requested the CAAP-HO ADMS' assistance verifying CAAP properties in Tagaytay. CAAP-HO ADMS provided a layout map identifying the requested data. CAAP-HO AMD would visit the Tagaytay City ROD and Provincial Environment and Natural Resources (PENRO) to obtain other property-related documents.
- 34.15. Management of AC VI commented that these had been raised to CAAP-HO and have started to process the transfer of titles. Further Area Legal Office is coordinating with CAAP-HO for appropriate steps to facilitate the transfer/titling of properties.
- 34.16. The Accounting Office of AC XI submitted pertinent available documents to the COA office on January 13, 2023. The subject land, with 854,997.16 square meters, for DIA, which remained untitled, was still in process at the Office of the City Planning and Development Coordinator, Davao City. For Cotabato Airport, the subject 516,415 square meter properties were already under the Republic of the Philippines (RP) through the Department of Transportation and Communication (DOTC). It was recorded in the DOTC's books of accounts as confirmed by the DOTC Chief Accounting Division. Further, the Management had submitted a copy of a letter addressed to the Office of the City Planning and Development Coordinator, Davao City, about the inquiry on the status of the remaining 363 properties still under the name of the affected property owners. No feedback/reply was received. Lastly, the Management will furnish CAAP-HO thru the Asset Management Division a copy of the Audit Observation Memorandum for their perusal.
- 34.17. The Audit Team acknowledged the efforts of the CAAP-HO in obtaining various documents, including the drafting of the MOA and the commitment to implement the audit recommendations.
- 34.18. On the other hand, the Audit Team emphasized that the Management of AC XI should submit a detailed status report of the lands in question since the previously submitted report to COA only indicated that the transfer of TCTs is already "in process" without any further information as to the exact status of the said parcels of land. Moreover, the Management was also instructed to submit an updated status report as it was observed that the report received by the Audit Team was identical to the report prepared by Intech Property Appraisal, Inc. way back in CY 2010. Management agreed to submit a detailed and updated

report once the City Planning Office replies to the letter they had sent inquiring about the status of the properties in question.

34.19. Further, the Audit Team will monitor the compliance and implementation of audit recommendations to resolve the issue.

35. Poor procurement planning in CAAP-HO resulted in the overstocking of Accountable Forms, which is contrary to Section 7.1 of the 2016 Revised Implementing Rules and Regulation (RIRR) of Republic Act (RA) No. 9184, Section 27 of the General Provisions of the 2022 GAA and Section 5 of COA Circular 2012-003, thereby, exposing the Authority to potential loss and wastage.

35.1. This is a reiteration of the prior year's audit observation embodied in CY 2021 AAR.

35.2. Section 7.1 of the 2016 RIRR of RA No. 9184, or the *Government Procurement Reform Act*, mandates that all procurement shall be within the approved budget and should be meticulously and judiciously planned by the Procuring Entity.

35.3. Meanwhile, Section 27 of the General Provisions of the 2022 GAA provides that the inventory of supplies, materials, and equipment spare parts to be procured shall not exceed the agency's two-month requirement.

35.4. 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 expenses or expenses incurred at an immoderate quantity and exorbitant price. It also includes expenses that exceed what is usual and proper, as well as those that are unreasonably high and beyond just measure or amount. They also include expenses in excess of reasonable limits.

35.5. The Accountable Forms, Plate, and Stickers Inventory account includes, but is not limited to, Official Receipts (ORs), Acknowledgment Receipts (ARs), and Postages Stamps.

35.6. Examination disclosed an overstocking of accountable forms in the Head Office (HO). As pointed out in the prior year's AAR, some of these accountable forms would take more than five years to consume, based on the average monthly consumption computed by the audit team, which is not in accordance with the provisions above. Details are presented in Table 33:

Table 33. Summary of Consumption of Accountable Forms

Particulars	Total Consumption	Average monthly consumption	Balance as of Dec. 31, 2022	Time to consume the forms*
	CY 2022			
Receipts				
Official Receipts	64,778	5,398	42,604	8 months
Acknowledgment Receipts	274	23	1,487	5 yrs. & 6 mos.
Postage Stamps**	470,287	39,191	495,889	1 yr. & 1 mo.

**Length of usage of accountable forms based on average monthly consumption*

***Consumption based on the money value of postage stamps*

35.7. The table above manifests that CAAP did not meticulously nor judiciously plan its procurement of accountable forms as required under the 2016 RIRR of RA No. 9184, which ultimately resulted in the overstocking of accountable forms. The audit further noted the following issues, which contributed to the overstocking:

- a. There was no established reorder point. Reorder points are essential in supply management as they determine the specific level at which stocks must be replenished. It considers the supplier's lead time, the stocks remaining, and the average utilization of a particular supply.

Inquiry with the Supply Division (SD) disclosed that they still had no established reorder point despite previous audit recommendations. Further, the SD asserted that since they are not the end-users of the accountable forms, they should not be the ones to establish the reorder point. We, however, maintain our position that it is the responsibility of the SD to establish the reorder point. This is consistent with the functions of the SD as presented in CAAP's official website, to wit: 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.

- b. The Supply Division does not keep track of the inventory of postage stamps. Currently, the control, monitoring, and requisition of these accountable forms are lodged with Central Records and Archive Division (CRAD) and Air Traffic Service (ATS), the end-users of these accountable forms, which might be vulnerable to the risk of loss or unauthorized use.

35.8. **We reiterated our prior year's recommendations, with modification, and Management agreed to direct the Supply Division to:**

- a. **Coordinate with all Supply Officers of CAAP ACs 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 the HO as well as in the ACs; and**

- b. Control and distribute postage stamps to properly monitor the supplies in accordance with the mandate of its Office.

36. The low utilization of the FY 2022 Corporate Operating Budget (COB) of CAAP indicated the inability of Management to implement its identified priority projects which could hamper the delivery of public service and deprived the National Government of the funds which could have been used for other priority projects.

- 36.1. Section 2 of Presidential Decree No. 1445, otherwise known as *the Government Auditing Code of the Philippines*, requires that all resources of the government shall be managed, expended, or utilized in accordance with laws and regulations and safeguarded against loss or wastage through illegal or improper disposition, to ensure efficiency, economy, and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.
- 36.2. Meanwhile, the CAAP Board of Directors approved the FY 2022 COB under Board Resolution (BR) No. 2021-40 and stated, among others, that the “selection of plans and programs for the COB FY 2022 was proposed with consideration of the priority projects aligned with higher-level plans and policies as stated in the Authority’s Thrusts and Priorities, and the employment of austerity measures to survive the challenges that the Authority faces amid the lingering effects of the COVID-19 pandemic on the world economy.”
- 36.3. For FY 2022, the Authority had a Department of Budget and Management (DBM) approved COB of P7.645 billion, which includes a subsidy from the National Government amounting to P2.439 billion. Of this amount, the Authority was able to utilize a total of P6.155 billion or 80.51 per cent of the COB. A summary of the budget utilization secured from the Budget Division (BD) is shown in Table 34.

Table 34. Budget Utilization of the FY 2022 Corporate Operating Budget (in the nearest peso)

Nature of Expense	Total Budget (A)	Total Utilization (B)	Unutilized Budget (C)	Budget Utilization Rate (B/A)
Personnel				
Services (PS)	P 2,881,500,828	P 2,552,472,086	P 329,028,742	88.58%
Maintenance and Other Operating Expenses (MOOE)*	4,194,671,814	3,476,321,072	718,350,742	82.87%
Capital Outlay (CO)	569,293,572	126,461,545	442,832,027	22.21%
	P 7,645,466,214	P 6,155,254,703	P1,490,211,511	80.51%

- 36.4. Based on the table, a staggering amount of P1.490 billion was left unutilized at year-end. It is also noteworthy that the budget for CO was barely expended/obligated, with a budget utilization rate of only 22.21 per cent.
- 36.5. The low budget utilization of CAAP, particularly for CO, shows the ineffective planning and budgeting of CAAP.
- 36.6. While it is within Management's prerogative to decide which projects need to be prioritized in a particular fiscal year, we reminded Management that for every peso left unutilized within their approved budget is another peso that the government could have better spent on other noteworthy projects or causes. This is particularly true for CAAP when it received a subsidy from the National Government to supposedly augment its budgetary needs for CY 2022, amounting to P2.439 billion.
- 36.7. The inability of CAAP to utilize and maximize its FY 2022 COB, despite being generously granted a subsidy by the National Government, is a missed opportunity for CAAP to improve its facilities and to avoid incidents similar to the air traffic fiasco on January 1, 2023. Ultimately, the issue deprived the government of funds it could have better used for other projects.

36.8. We recommended and Management agreed to:

- a. Instruct the concerned offices with low budget utilization rates to justify why their programs/projects remained unimplemented as of December 31, 2022.**
 - b. Evaluate the justification and use it to determine the appropriate strategies or courses of action to ensure immediate implementation or re-allocation of funds for other priority projects, if needed;**
 - c. Moving forward, institute measures, including the accountability of concerned offices, to ensure timely implementation of projects/activities and, consequently, the utilization of funds within the year they were budgeted; and**
 - d. Direct the Budget Division to closely monitor the budget utilization of CAAP and, thereafter, periodically inform the Office of the Director General of any noted deviation so that the ODG may initiate immediate actions.**
- 36.9. Management commented that concerned offices already provided their justifications for their unimplemented projects. Likewise, they committed to prepare a detailed remedial action plan which would reflect the specific measures they would undertake to resolve the issue. Management acknowledged the recommendations and committed to accomplish the same.

37. Results of confirmation of receivables from lessees disclosed an unreconciled difference of P1.619 million.

37.1. Confirmation letters were sent to the six lessees at CAAP HO to ensure the accuracy of account balances. Results showed a total variance of P1.619 million, thus, casting doubt on the accuracy and reliability of the account balance.

37.2. We recommended that Management instruct the CAAP-HO AD to trace and identify the causes of the difference between the balance per CAAP's and lessees' books, reconcile with the lessees' records, and make necessary adjustments in the books of accounts, if warranted.

37.3. Management commented that CAAP-HO AD had already updated and reconciled the SLs of the three concessionaires while the rest were still subject to verification and reconciliation.

38. IT security policy not effectively implemented, thereby exposing CAAP to potential security breaches or data loss.

38.1. CAAP's Information Technology (IT) security policy defines the security controls to ensure the confidentiality, integrity, and availability (CIA) of the Authority's IT resources. The policy states that proper configuration of Information and Communication Technology equipment and installation of programs or applications is among the roles and responsibilities of the CAAP-HO Management Information Systems Division (MISD). Item 5.1.a.2 specifically provides that only legitimate software that underwent security testing, including software and freeware, must be installed within the computer network.

38.2. In March and April 2022, the technical personnel from the Information Technology Audit Office (ITAO) of the Commission on Audit conducted physical/ocular inspection and functionality testing/validation of the deliverables related to the contract for the Supply and Delivery of ICT Infrastructure amounting to P16.570 million. Inspection revealed that the ICT Equipment did not conform with the technical specifications required per contract.

38.3. Verification of documents and information gathered disclosed that at the time of delivery, IT equipment were inspected and found to be in accordance with the contract requirements. However, some end-users installed applications for checking and testing an app/database or for their personal use, thus, affecting the specifications of the equipment at the time of inspection. The end-users could install software on CAAP-issued desktops/laptops even without undergoing security testing. This practice indicated a weakness in implementing the Authority's IT security controls that might affect the confidentiality, integrity, and availability of data necessary for CAAP operations.

38.4. Even worse, the Technical Team spotted Microsoft Office, not licensed/activated but installed on one desktop and laptop. Installing unlicensed software may expose the Authority to cyber threats like data theft, ransomware, and network attacks.

38.5. We recommended that Management direct the CAAP-HO MISD to:

- a. Revisit CAAP's IT security policy, monitor and ensure that controls are implemented and operating effectively; and**
- b. Disseminate the IT security policy to all CAAP employees/personnel to raise awareness and help the Authority protect against confidentiality, integrity, and availability threats.**

38.6. Management commented that the observation was already noted and considered by CAAP-HO MISD. To prevent the recurrence of this observation and ensure that personnel would no longer be able to change the unit's configurations, the CAAP-HO MISD implemented the Administrator Control Policy in each unit.

38.7. Management also committed to safeguard CAAP's assets (ICT Equipment, software, application system, productivity tools, and other related IT devices) and ensure that the security control shall be properly monitored. In addition, Management commented that reports and memoranda will be issued accordingly with regard to sanctions/penalties in case of non-compliance.

38.8. Management, with CAAP-HO MISD, acknowledged the audit recommendations and committed to spearhead the dissemination of Data Privacy and Cybersecurity Awareness relative to ICT policy, security control and measures, vulnerability, and other cyber threats in CAAP.

38.9. The Audit Team will monitor Management's compliance with the recommendations and their implementation in CY 2023.

39. Missing deliverables due to non-compliance with the procedures prescribed in the Administrative and Finance Service (AFS) Operations Manual

39.1. Item Nos. 4.6.1 and 4.6.2 of Administrative and Finance Service (AFS) Operations Manual, Receiving of Delivered Goods from Supplier and Issuance of Supplies/Equipment and Property Accountability for Goods Delivered/Received on site, prescribe that goods received from a supplier need to undergo checking and verification before acceptance and shall be stored according to their value and classification. Subsequently, these items were issued to end-users accompanied by Property Acknowledgement Receipt (PAR) or Inventory Custodian Slip (ICS) based on the approved Request and Issue Slip (RIS).

39.2. Regarding the issuance of supplies/equipment to the end user, the accomplished RIS shall be forwarded to the CAAP-HO Supply Division (SD) to verify the availability of items. If available, the SD Personnel-in-Charge shall record the issuance of requested supplies/equipment in the Stock Card/Property Card and prepare the corresponding PARs and/or ICS, whichever is applicable, to establish property accountability on issued properties.

39.3. During the inspection in March and April 2022, the Technical Team noted that equipment were already distributed/issued to different CAAP offices, but the corresponding PARs were not issued to the end-users. It was also found that PAR was issued to and acknowledged by the Administrative Officer (AO) of CAAP-HO MISD, although she was not the end-user of such equipment. According to the CAAP-HO MISD and SD, the PAR was issued to the AO of MISD to expedite the recording of properties and the processing of payment. It would appear that PAR was issued “for convenience” and not to establish property accountability. This eventually caused difficulty in determining the accountable person/s on certain properties and would force the AO of MISD to carry the burden of acknowledging receipt and accountability on properties that were not in her possession. As a result of the foregoing, many contract deliverables were not found/presented, including some tablets that were not returned by the personnel in charge who were no longer connected with the Authority, since during their clearance for accountabilities, PAR for tablets were still under the name of the AO.

39.4. The non-compliance with the procedures prescribed in the AFS Operations Manual on the issuance of equipment to end-users exposed the Authority to possible loss of government properties. Accountable persons on certain assets could not be determined due to lack of documents such as distribution lists, and PAR/ICS.

39.5. We recommended that Management direct:

a. CAAP-HO SD to:

- i. Strictly adhere to the guidelines prescribed in the AFS Operational Manual, particularly on receiving delivered Goods from suppliers and issuing supplies/equipment and Property Accountability for Goods Delivered/Received on-site;**
- ii. Ensure complete documentation to establish accountability and ensure proper monitoring of the whereabouts of CAAP properties; and**

b. Instruct CAAP-HO MISD and SD to expedite the recovery of properties in the custody of employees already separated from CAAP.

39.6. Management with CAAP-HO SD acknowledged the recommendation to strictly adhere to the guidelines prescribed in the AFS Operation Manual. Moreover, CAAP-HO SD would ensure that the End-user (Office/Division/Service) of the projects would provide a copy of the distribution list on or before the technical inspection and acceptance report to guarantee that upon acceptance of items, the CAAP-HO SD would properly account the items to each property accountable officers and accomplish the required documentation.

39.7. Management encouraged the coordination between CAAP-HO SD and MISD to prioritize retrieving the properties issued to CAAP employees already retired or separated from the Authority.

- 39.8. The Audit Team noted the Management comments and looked forward to its implementation in CY 2023.

40. Defective/unserviceable contract deliverables not disposed of and still in possession of the end-users.

- 40.1. Section 79 of Presidential Decree (PD) 1445, also known as the *Government Auditing Code of the Philippines*, provides guidelines for government properties that have become unserviceable for any cause.
- 40.2. Related thereto, COA Circular No. 89-296 dated January 27, 1989, was issued prescribing the *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*.
- 40.3. Moreover, Item 4.6.3 of the AFS Manual requires the Inventory Committee (IC) to regularly inspect the Supplies, Property, and Equipment to check for unserviceable items and update the property accountability of individual employees. Properties deemed unserviceable shall be disposed of pursuant to Item 4.6.4 of the same Manual.
- 40.4. During the inspection, the Technical Team noted various defective/malfunctioning items or deliverables but still found in possession of the End-User and/or CAAP-HO MISD at the time of inspection.
- 40.5. Inquiry with the CAAP-HO MISD confirmed that some defective items kept at the MISD storage room and items found in possession of the end-users were indeed unserviceable properties. CAAP-HO MISD explained that before the disposal of these items, they wanted to ensure that all accountability issues encountered were addressed before the Supply Division's (SD's) thorough and proper inventory and disposal. CAAP-HO MISD also informed that they had already advised end-users possessing defective/unserviceable properties to coordinate with the SD for proper recording and disposal of said assets.
- 40.6. Not returning/surrendering defective/unserviceable items to Property Control Officer or his alternate staff might cause further deterioration and possible loss of their value and deprives the Authority of generating additional income from the prompt disposal of unserviceable government properties.

40.7. We recommended that Management:

- a. **Direct end-users of defective/unserviceable properties to return/surrender the properties to the Property Control Officer for their appropriate actions;**
- b. **Property Control Officer and Supply Division to collect returned/surrendered properties, prepare the Report of Waste Materials, and cancel the item in the individual PAR/ICS; and**

- c. Disposal Committee, in coordination with Supply Division, to facilitate the disposal of unserviceable properties in accordance with the procedures prescribed under Circular No. 89-296, AFS Operations Manual, and other pertinent laws, rules, and regulations, to avoid further deterioration and possible loss of value.**

- 40.8. Management commented that coordination between CAAP-HO SD and MISD is ongoing to check the reported defective units. Further, a memorandum was issued on March 3, 2021, where all CAAP employees were reminded to return/surrender unserviceable equipment due for disposal and beyond economical repair to CAAP-HO SD.
 - 40.9. CAAP-HO SD through the Property Officers committed to accomplish necessary documentation whenever an end-user surrenders/returns unserviceable properties.
 - 40.10. The Audit Team appreciated the ongoing coordination between the concerned divisions to implement the audit recommendations.
- 41. The Authority did not secure a contract or a subscription agreement with a reliable telecommunication company for the telephone services in the CAAP-HO. Instead, Management continuously paid a third-party or intermediary supplier, despite the lack of a valid contract or agreement, which placed the Authority in a disadvantageous position when imposing its rights for services it had been paying.**
- 41.1. Section 4 (6) of Presidential Decree (PD) No. 1445, also known as the Government Auditing Code of the Philippines, provides that claims against government funds shall be supported with complete documentation.
 - 41.2. Audit disclosed that CAAP had been paying for telephone services (landline) since 2016, to a third-party or intermediary supplier, despite the absence of a written contract or contractual agreement, contrary to the above provisions, placing CAAP in a disadvantageous position when imposing its rights for services it had been paying.
 - 41.3. In 2016, CAAP contracted a private contractor to supply, deliver, install, and commission the IP-based Private Automatic Branch Exchange (PABX) system for its telephone services. The installation was completed in July 2016. Based on the technical specification of the contract and as part of the implementation of the project, the contractor shall be responsible for the subscription to various connectivity/telephony accounts with appropriate service providers, which shall be transferred to CAAP afterward. However, the contractor failed to transfer the subscriptions to the Authority thereafter.
 - 41.4. The Audit Team believed that CAAP did not take concrete and necessary actions to compel the contractor to transfer the subject accounts to CAAP. While we could not discount the fact that it is the contractor's responsibility to transfer the subscription accounts to CAAP, nothing on the records shows any significant or compelling action from the Authority to enforce the contract. CAAP

could have referred the case to its Enforcement and Legal Service to pursue legal action for the non-compliance. If warranted, CAAP could even go as far as blacklisting the said contractor for failing to comply with provisions outlined in their contract with CAAP in accordance with the Uniform Guidelines for Blacklisting of Manufacturers, Suppliers, Distributors, Contractors, and Consultants as provided under GPPB Resolution No. 40-2017. Management's inaction to secure a contract or subscription agreement with its service providers shows that the Management Information System Division (MISD), the end-user, might have been oblivious to the importance of such a document.

- 41.5. From time to time, CAAP had been without any telephone service. Had there been a contract directly with the service provider, such as the subscription contract, had the contractor duly transferred the accounts to CAAP, the Authority could have taken a more definitive course of action to ensure the immediate restoration of the communication lines, which is crucial to the daily functions of CAAP. The contract is a key document to support the payment for any services procured by any government agency. The absence of which casts doubt on the validity of the payments made.

41.6. We recommended that Management:

- a. Initiate appropriate legal remedies provided under RA 9184 against the service provider for their non-compliance with contract provisions; and**
- b. Henceforth, ensure that all procurement made is duly supported with valid and binding contract agreements before payment.**

- 41.7. Management, in their reply to the audit observation memorandum, narrated the steps undertaken by the MISD to transfer the subscription accounts for telephone services from the contractor to CAAP. However, to this date, the contractor has yet to transfer the said accounts to CAAP.

- 41.8. Considering those mentioned above, the Audit Team maintains that CAAP could not take concrete and necessary actions to compel the private contractor to transfer the subject accounts. As previously stated, CAAP could have referred the issue to the Enforcement and Legal Service to pursue legal action against the contractor for its non-compliance with the agreement's provisions. If warranted, CAAP could have even blacklisted them. We emphasize that it has already been more than five years since the IP-based PABX system's installation.

- 41.9. Similar to our recommendation, we recommend that CAAP look into other possible actions to take, e.g. blacklisting, bill reduction, or whatever legal action is warranted, considering the private contractor could not provide the required telephone services for several months. Further, we are most respectfully requesting that henceforth, Management ensure that a valid and binding contract be executed first with its service providers prior to payment.

42. Annual quality assessment or cost-benefit analysis on the service provider of CAAP for telephone services in the CAAP-HO was not conducted, contrary to Section 3.2.1.2 of Appendix 21 of the 2016 RIRR of RA No. 9184, which cast doubt on whether the telephone services availed by CAAP continued to be favorable to the Authority.

42.1. Section 3.2.1 of Appendix 21 of 2016 Revised Implementing Rules and Regulations of RA No. 9184 states that “Contractual agreements previously entered into with telecommunication companies shall be respected and that at the end of each year, the procuring entity must assess the quality of service provided by its telecommunication service provider. If the assessment results or cost-benefit analysis continue favoring the existing service provider, then the Head of the Procuring Entity may simply renew its services. If it does not, the procuring entity should open the bidding for the said services.”

42.2. Audit noted that the CAAP – HO did not conduct an annual quality assessment or cost-benefit analysis on the service provided by its service provider, as required by the above-mentioned regulations, casting doubt on whether the telephone services they availed continue to be favorable to the Authority. This is despite the fact that CAAP has been experiencing numerous technical issues with its telephone services, including the non-compliance of its service provider in transferring the subscription accounts to CAAP per the contract.

42.3. We recommended that Management instruct the MISD to initiate the yearly assessment of telephone services to check if the cost-benefit analysis still favors the current service provider; if not, bid the said services with other telephone service providers.

42.4. The MISD asserted that they have been conducting cost-benefit analyses since 2019.

42.5. As an audit rejoinder, the Audit Team reiterates the need for Management to faithfully conduct a yearly quality assessment or cost-benefit analysis of its telephone service. The Audit Team secured a copy of a supposed cost-benefit analysis conducted by the MISD in CY 2019. It is noteworthy that the said report was both undated and unsigned and showed data that were unavailable in 2019, such as the subscription cost of telephone expenses for CY 2020 to 2021. This might indicate that the report was only recently drafted.

43. CAAP did not formulate a Gender and Development (GAD) Agenda contrary to PCW Memorandum Circular No. 2018-04 dated May 4, 2018. Moreover, CAAP did not prepare its GAD Plan and Budget (GPB) for CY 2022 as required under PCW-NEDA-DBM Joint Circular No. 2012-01 due to the Management’s non-conduct of GAD planning and budgeting for two consecutive years.

43.1. Philippine Commission on Women (PCW) Memorandum Circular (MC) No. 2018-04 dated May 4, 2018, prescribes the revised guidelines in preparing the GAD Agenda. The Circular requires the preparation of the GAD Agenda, which is the agency’s strategic framework and plan for gender mainstreaming, and achieving women’s empowerment and gender equality.

- 43.2. Section 5.1.2 of the same Memorandum Circular states that – *For agencies with sub-units, the GFPS of the central office (CO) shall ensure the representation and participation of regional offices, staff bureaus, and other sub-units of the agency in the planning team. **Attached agencies and bureaus independent from their parent agency shall also issue an office memorandum and shall prepare their respective GAD Agenda.***” (Emphasis ours)
- 43.3. Meanwhile, Sections 3.2 and 3.3 of PCW-NEDA-DBM Joint Circular No. 2012-01 provide that GAD planning and budgeting shall be conducted annually and that the GAD budget shall form part of the agencies’ approved budget. The GAD budget shall be at least five per cent of their budget.
- 43.4. Audit revealed that the Authority had not formulated GAD Agenda. Per an interview with a member of the Secretariat of the GAD Focal Point System (GFPS), CAAP, being an attached agency of the Department of Transportation (DOTr), is abiding by the GAD Agenda of the latter and, therefore, is not required to formulate its own GAD Agenda. Similarly, CAAP was not able to conduct its GAD Planning and Budgeting for two-consecutive years and, consequently, did not prepare its GPB.
- 43.5. The Audit Team would like to emphasize that, considering CAAP is an attached agency independent from DOTr, CAAP should have prepared its own GAD Agenda as required under Section 5.1.2 of the Memorandum Circular mentioned above. Likewise, CAAP is responsible for preparing its GPB to ensure gender-responsiveness in its Programs, Activities and/or Projects (PAPs) as required under Sections 3.2 and 3.3 of PCW-NEDA-DBM Joint Circular.
- 43.6. GAD Agenda and GPB are vital components of Gender and Development. The GAD Agenda consists of the GAD Strategic Framework (GADSF) and the GAD Strategic Plan (GADSP). The GADSF outlines the agency’s GAD Vision, Mission and Goals anchored on the mandate of the agency, while the GADSP defines the strategic interventions, indicators, and targets to be pursued to achieve GAD goals over some time. The GAD Agenda should have a timeframe of six years. On the Other hand, the GPB is crucial to mainstream gender perspectives within an agency’s PAPs.
- 43.7. As stated in the Circulars above, CAAP must allocate at least five per cent of its budget for GAD. Further, Section 5.3 of PCW-NEDA-DBM Joint Circular No. 2012-01 states that Agencies are encouraged to assess the gender responsiveness of their major programs and projects.
- 43.8. Management’s non-formulation of its GAD Agenda and GPB casts doubt on whether the PAPs of the Authority are truly gender-responsive.
- 43.9. We recommended and Management agreed to instruct the GFPS Executive Committee to provide a detailed course of action it will undertake to ensure its compliance forthwith with PCW Memorandum Circular No. 2018-04 and PCW-NEDA-DBM Joint Circular No. 2012-01.**

44. CAAP did not assign a Responsibility Center (RC) for the Gender and Development (GAD) Focal Point System contrary to COA Circular No. 2021-008 dated September 6, 2021.

- 44.1. COA Circular No. 2021-008 dated September 6, 2021, prescribes the assignment of a responsibility center for the GAD Focal Point System to account, monitor and report GAD expenses and other GAD-related financial transactions.
- 44.2. RC is a part, segment, unit, or function of a government entity headed by a manager accountable for a specified set of activities. Except for some, which derive most of their income from collecting taxes and fees, government entities are cost centers with the primary purpose of rendering service to the public at the lowest possible cost. Cost centers are established to provide each government entity access to cost information and facilitate cost monitoring at any given period.
- 44.3. Audit disclosed that the Budget Division did not implement a specific RC Code for GAD as they were unaware of the COA issuance. The Budget Division simply marks Budget Utilization Requests with “GAD” to identify these transactions as related to GAD.
- 44.4. The non-compliance of the Authority in implementing the COA Circular raises concerns about whether all GAD-related disbursements are properly accounted for and monitored as reflected in the GAD reports.
- 44.5. We recommended and Management agreed to instruct the Chief of the Budget Division to implement an RC Code specific to GFPS in compliance with COA Circular No. 2021-008 dated September 6, 2021.**

45. The Canvass and Contract Committee (CCC) did not conduct a detailed evaluation of the eligibility of all bidders in determining the Lowest Calculated Bid (LCB) in the procurement of goods and services amounting to P26.908 million, contrary to Sections 30.1 and 32 of the Republic Act No. 9184 (R.A. No. 9184).

- 45.1. Section 30.1 of the Revised Implementing Rules and Regulations (RIRR) of R.A. No. 9184 states that the Bids and Awards Committee (BAC) shall determine each bidder’s compliance with the technical documents required to be submitted for eligibility.
- 45.2. For this purpose, the BAC shall check the submitted documents of each bidder against a checklist of required documents to ascertain if they are all present, using a non-discretionary “pass/fail” criterion. If a bidder submits the required document, it shall be rated “passed” for that particular requirement. In this regard, bids that fail to include any requirement or are incomplete or patently insufficient shall be considered “failed.”
- 45.3. Also, Section 32 of the same Act specified the evaluation of the financial component of the bid using the same non-discretionary criteria considering the

completeness of the bids and arithmetical corrections to ensure a fair and competitive bid comparison. After all bids have been received, opened, examined, evaluated, and ranked, the BAC shall prepare the corresponding Abstract of Bids attaching all the bids with their corresponding Minutes or proceedings of the bidding.

- 45.4. Verification of Disbursement Vouchers of CAAP Dumaguete Airport and Bohol Panglao International Airport (BPIA) as of December 31, 2022, disclosed that in the procurement of goods and services amounting to P26.908 million, the CCC did not conduct a detailed evaluation of the eligibility of all bidders in determining the Lowest Calculated Bid. Only the financial components of the bids were presented as the basis for determining the lowest calculated bid, as shown in the Abstract of Quotation. It would appear that the CCC did not give the bidders equal access to the bidding process.
 - 45.5. The CCC of CAAP Dumaguete Airport and CAAP BPIA also admitted that they did not prepare the Evaluation Report due to a lack of personnel. Moreover, in CAAP Dumaguete had no Minutes of the Meeting to document the bidding proceedings.
 - 45.6. The above procedural lapses were not in accordance with the provisions under R.A. No. 9184, casting doubt on the fairness and transparency of the procurement process in CAAP Dumaguete Airport and CAAP BPIA.
 - 45.7. **We recommended that Management direct the CCC at CAAP Dumaguete Airport and CAAP BPIA to henceforth, conduct a detailed evaluation on the eligibility of all bidders in determining the Lowest Calculated Bid and require CAAP Dumaguete to submit the Minutes of the Meeting/bidding, in accordance with Sections 30.1 and 32 of the Revised IRR of the RA No. 9184 to ensure a fair and equal opportunity/access to all prospective bidders.**
 - 45.8. The Area Center VII Management committed to undertake the necessary steps to comply with all the documentary requirements stipulated in the implementing guidelines.
- 46. The Bids and Awards Committee (BAC) did not conduct a Pre-Procurement Conference for the procurement of five infrastructure projects, with an individual Approved Budget for the Contract amounting to more than P5 million, contrary to Section 20 of the Revised Implementing Rules and Regulations of Republic Act No. 9184.**
- 46.1. Section 20 of the RIRR of R.A. No. 9184 requires the BAC, through its Secretariat, to call for a pre-procurement conference and perform the activities enumerated therein.
 - 46.2. Review of the submitted infrastructure contracts disclosed that the following five infrastructure projects had Approved Budget for the Contract (ABC) amounting to more than P5 million, hence, require the conduct of a pre-procurement conference as mentioned in the above provision, to wit:

Table 35. List of projects with ABC of More than P5 Million

Project Name	ABC
Repair of damaged areas at Surigao Airport due to Typhoon Odette	P 10,645,523
Repair of damaged areas at PTB, ARFF Building, Admin Building, Guardhouse, K9 Building, Supply Building, CR, CSIS Building and Control Tower at Siargao Airport	8,663,044
Improvement of PTB and Perimeter Fence at Siargao Airport	8,272,370
Improvement of the Passenger Terminal Building (PTB) at Surigao Airport	7,317,470
Improvement of Surigao Airport	7,019,864

- 46.3. Verification of available documents revealed that the BAC did not conduct the pre-procurement conference in the procurement of the above contracts which is contrary to the provision mentioned earlier.
- 46.4. The non-conduct of the pre-procurement conference precluded all the officials involved, particularly the end-users from the distant Satellite Airports, from discussing all aspects of the specific procurement activity before the issuance of the Invitation to Bid, which includes the technical specifications, the ABC, the applicability and appropriateness of the recommended method of procurement and the related milestones, the bidding documents, and availability of the budget for the project.
- 46.5. **We recommended and Management agreed that henceforth, the BAC will conduct Pre-Procurement Conference for Infrastructure Projects with an ABC amounting to more than P5 million in accordance with the provision of Section 20 of the Revised IRR of RA No. 9184.**

47. Compliance with Tax Laws

- 47.1. The 12 Area Centers (ACs) have substantially complied with the requirements on the withholding and remittances of taxes during CY 2022 while various observations with regard to CAAP-HO's compliance with the National Internal Revenue Code of 1997 were noted, to wit:
- a. Erroneous computation of Minimum Corporate Income Tax (MCIT) for CY 2020 resulted in the understatement of Other Prepayment account and overstatement of the Deferred Tax Assets account by P7.454 million, as discussed in Observation No. 16;
 - b. CAAP did not file the creditable withholding taxes amounting to P27.041 million as tax credits in its annual income tax return, thus exposing the Authority to the risk of loss due to foregone tax credits as discussed in Observation No. 27; and
 - c. Taxes withheld on compensation from officers and employees, Government Money Payments (GMP), Value-Added Tax (VAT),

Percentage Tax, and for the expanded withholding taxes from various suppliers amounting to P5.923 million in CAAP-HO were not remitted to the BIR within the prescribed period, thereby exposing the Authority to unnecessary penalties and interests. This was further discussed in Observation No. 28.

47.2. The details of amounts withheld and remitted to the BIR during the year are presented in Table 36.

Table 36. Taxes Withheld and Remitted

Offices	Restated Beginning, January 2022 (As Restated)	Adjustments During the Year	Taxes During CY 2022		Balance, December 31, 2021
			Tax Withheld	Tax Remitted	
Head Office	P 100,060,741	P (6,018,541)	P 331,391,845	P 331,563,436	P 93,870,609
AC I	P 1,823,026	P 0	P 9,646,695	P 8,113,923	P 3,355,798
AC II	854,212	(9,119)	4,760,048	3,938,615	1,666,526
AC III	6,783,936	0	14,571,665	15,803,400	5,552,201
AC IV	2,048,759	(10,575)	9,973,497	8,435,762	3,575,919
AC V	253,213	0	12,968,301	9,948,466	3,273,048
AC VI	912,597	(45,917)	27,410,883	25,752,061	2,525,502
AC VII	2,031,291	(38,967)	19,805,808	19,759,539	2,038,593
AC VIII	976,807	30	8,602,218	7,787,618	1,791,437
AC IX	647,717	0	16,854,743	14,623,548	2,878,912
AC X	1,668,296	0	12,094,906	10,213,773	3,549,429
AC XI	2,958,934	0	22,798,262	22,710,680	3,046,516
AC XII	148,493	91,721	10,655,227	9,396,181	1,499,260
Total Area Centers	21,107,281	(12,827)	170,142,253	156,483,566	34,753,141
Total	P 121,168,022	P(6,031,368)	P501,534,098	P 488,047,002	P128,623,750

48. Compliance with GSIS, Pag-IBIG, and PhilHealth Premium/Loan Amortization/Deductions and Remittances

48.1. 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 and 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 37. GSIS, Pag-IBIG, and PhilHealth Premiums/Loan Amortizations and Remittances

Particulars	Balances as of January 1, 2022 as restated	Adjustment(s)	Premiums and Loan Amortization collected for CY2021	Remittances	Balances as of December 31, 2022
GSIS	P 16,241,126	P (188,918)	P 420,422,213	P 379,377,744	P 57,096,677
Pag-IBIG	5,064,686	68,560	39,484,451	39,977,254	4,640,443
PhilHealth	5,241,315	108,551	46,211,517	38,320,272	13,241,111
TOTAL	P 26,547,127	P (11,807)	P 506,118,181	P 457,675,270	P 74,978,231

48.2. Most of the ending balances pertain to collections in December 2022 that were subsequently remitted in January 2023.

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

49.1. The total audit suspensions, disallowances, and charges found in the audit of transactions as of December 31, 2022 are summarized in Table Nos. 38 and 39:

HEAD OFFICE

Table 38. Summary of Audit Suspensions, Disallowances and Charges in the Head Office

Particulars	Beginning Balance as of January 1, 2022	This Period January 1 to December 31, 2022		Ending Balance as of December 31, 2022
		NS/ND/NC	NSSDC	
Notice of Suspensions	P 53,926,562	P 35,751,933	P 59,749,433	P 29,929,062
Notice of Disallowances	886,990,006	0	455,352	886,534,654
Notice of Charge	30,913	0	0	30,913
TOTAL	P 940,947,481	P 35,751,933	P 60,204,785	P 916,494,629
% of settlement			6.16%	

AREA CENTERS

Table 39. Summary of Audit Suspensions, Disallowances and Charges in Area Centers

Particulars	Beginning Balance as of January 1, 2022	This Period January 1 to December 31, 2022		Ending Balance as of December 31, 2022
		NS/ND/NC	NSSDC	
Notice of Suspensions				
AC V	P 1,144,134	P 0	P 0	P 1,144,134
AC VI	50,524	133,471	50,524	133,471
AC VIII	67,915	0	19,708	48,207
AC XII	12,806,081	98,929	5,350,197	7,554,813
TOTAL	P 14,068,654	P 232,400	P 5,420,429	P 8,880,625
% of settlement			37.90%	

Particulars	Beginning Balance as of January 1, 2022	This Period January 1 to December 31, 2022		Ending Balance as of December 31, 2022
		NS/ND/NC	NSSDC	
Notice of Disallowances				
AC I	P 16,342,938	P 0	P 0	P 16,342,938
AC II	8,321,783	0	686,649	7,635,134
AC III	15,699,802	0	230,862	15,468,940
AC IV	11,676,055	0	0	11,676,055
AC V	22,315,430	0	0	22,315,430
AC VI	67,133,847	0	31,431	67,102,416
AC VII	41,530,411	0	0	41,530,411
AC VIII	9,154,588	0	41,454	9,113,134
AC IX	26,827,107	0	0	26,827,107
AC X	108,587,561	0	105,000	108,482,561
AC XI	39,022,789	0	11,000	39,011,789
AC XII	7,227,154	40,415	0	7,267,569
TOTAL	P 373,839,465	P 40,415	P1,106,396	P372,773,484
% of settlement			0.30%	

49.2. Notice of Suspension was issued to CAAP-HO in CY 2022 for the payment for the supply of Medical Supplies and Equipment for the Office of the Flight Surgeon and Aviation Medicine (OFSAM) amounting to P35.752 million. The suspension was settled on December 14, 2022 in view of the submission by OFSAM of the necessary documents as proof that the medical supplies and equipment were actually received and issued to end-users which the Audit Team evaluated/examined and found in order.