

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. The balance of Accounts Receivable account amounting to P4.770 billion is unreliable due to a) existence of past due accounts of P1.662 billion ranging from more than 1 year to 19 years; b) variance amounting to P1.293 billion between the balance per General Ledger (GL) and Subsidiary Ledger (SL); c) erroneous recording of advance payments amounting to P169.414 million; and d) variance between the accounting records and confirmation replies from 124 selected debtors amounting to P304.102 million.

a. Past due accounts amounting to P1.662 billion

- 1.1 Paragraph 66 of the Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements, provides that:

“An entity shall classify an asset as current when:

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

- 1.2 Further, Part VII of CAAP Circular No. 03-11 dated April 11, 2011, states that:

“The failure of any person, firm or corporation to pay the charges herein prescribed shall be a ground for collection suit, without prejudice to administrative action.”

- 1.3 Furthermore, Part XIII, Section 3 of the Revised Schedule of Fees and Charges under the Alternate International Airports & National Airports Department Order No. 98-1178, dated February 25, 1999 provides that:

PART XIII: PAYMENT

Sec. 3 “Effects of Non-payment – *Failure on the part of any person, firm or corporation to pay any fee, charge or rental due and payable after written demand by the Assistant Secretary, shall be considered sufficient ground to deny such person, firm or corporation of the further use of the airport or any of its facilities, utilities and services and shall be a basis for cancellation for their contract. xxx”*

- 1.4 The Accounts Receivable of the Authority pertains mainly to Air Navigational Charges (ANC), landing and take-off fees billed to international and domestic airline operators, which are expected to be collected within ten working days

upon receipt of the billing statement. Based on the above provisions, the Accounts Receivable should be realized within twelve months or within the normal operating cycle of the Authority, whichever is shorter.

- 1.5 Audit however noted the existence of past due receivables accounts amounting to P1.662 billion, aged from over 1 year up to 19 years, in CAAP-HO, AC I and AC IV. Details are below:

Table 1. Aging of Accounts Receivables			
	Past Due		Total
	Over 1 year to 10 years	Over 10 years	
Head Office	P 155,306,221	P 1,418,343,672	P 1,573,649,893
AC I	22,496,542		22,496,542
AC IV	63,303,850	2,266,288	65,570,138
	P 241,106,613	P 1,420,609,960	P 1,661,716,573

- 1.6 Of the said amount, we gathered that P1.418 billion pertains to receivables which are already 100 per cent impaired as of year-end.
- 1.7 Inquiry with the Chief Accountant disclosed that some of these receivables are from airline companies which are no longer in operation, thus the probability of collection could no longer be ascertained.
- 1.8 Further, we gathered that some of these receivables are already dormant, however, no request for write-off has been made with this Commission in compliance with COA Circular No. 2016-005 dated December 19, 2016 which provides the guidelines and procedures on the write-off of dormant receivables account, unliquidated cash advances and fund transfers.
- 1.9 The non-collection of the overdue accounts deprives the Authority of additional funds that could be used to further perform its mandate.

b. Variance amounting to P1.293 billion between the balance per GL and SL

- 1.10 Title III, Chapter 2, Section 111 of PD No. 1445 – General Ledger provides that:

Section 111. Keeping of accounts

- (1) *“The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.”*

(2) *“The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.”*

1.11 Paragraph 15 of Philippine Accounting Standard (PAS) 1 states that:

“xxx. 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”

1.12 Audit of Accounts Receivable account revealed that, in CAAP-HO and several of its Area Centers, the balance per GL did not reconcile with the balance of its SL, showing a variance of P1.293 billion, thereby rendering the balance of the account unreliable and doubtful. Moreover, non-reconciliation of the GL and SL is not in accordance with the provisions of Section 111 of PD No. 1445 and Paragraph 15 of PAS 1. Details are shown below:

Table 2. Variance between GL and SL			
	GL	SL	Variance
Head Office	P 2,648,075,533	P 3,931,078,955	P 1,283,003,422
Area Center I	34,006,959	39,454,492	5,447,533
Area Center II	30,873,003	31,276,843	403,840
Area Center IV	126,150,525	126,573,124	422,599
Area Center VI	824,795,913	821,433,298	3,362,615
			P 1,292,640,009

1.13 Inquiry with the Accounting Division revealed that part of the variance could be attributed to the absence of supporting documents from the then Air Transportation Office (ATO) accounts and lack of personnel to locate the pertinent documents.

c. Understatement of Accounts Receivable account due to the erroneous recording of advance payments amounting to P169.414 million

1.14 Annex C of COA Circular No. 2020-002 dated February 28, 2020 provides definition of accounts as provided under the Revised Chart of Accounts of Government Corporation. It states the following:

“Accounts Receivables account is debited to recognize the amount due from customers arising from regular trade and business transactions. This account is also used to recognize the amount of billings made to the customer related to construction contract. This account is credited upon collection, transfers, write-off, and/or adjustments of receivables.”

“Other Unearned Revenue/Income account is credited to recognize other income/revenue received in advance not falling under any of the specific unearned revenue/income accounts. This account is debited when revenue is earned, and/or for adjustments.”

- 1.15 Verification disclosed that as of December 31, 2019, there were various receivables with abnormal/negative balances amounting to P169.414 million.
- 1.16 Inquiry with the Chief Accountant revealed that these receivables primarily pertain to overpayments due to the following instances:
 - a. Overpayment made by various airlines with non-scheduled flights which were required to pay Air Navigational Charges (ANCs) in advance based on the estimated amount computed by the Flight Safety Inspectorate Service (FSIS) – Operations. However, when actual billing statements were made, the charges billed are lower than the advance payments made.
 - b. ANCs paid in advance but flights were subsequently cancelled.
- 1.17 This practice, however, does not conform with COA Circular No. 2020-002 which provides that advance payment received for services yet to be rendered should be recorded as credit to Other Unearned Revenue/Income account.
- 1.18 Failure to record the advance payment in its proper account resulted in the understatement of the Accounts Receivables and Other Unearned Revenue/Income accounts.

d. Variance between the accounting records and confirmation replies and non-confirmation from 124 selected debtors amounting to P304.102 million

- 1.19 QC4 and QC29 of the Conceptual Framework of the Philippine Financial Reporting Standards states that:

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

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

- 1.20 As of December 31, 2019, the Accounts Receivable account in CAAP-HO has a balance of P2.648 billion. To determine the existence and accuracy of the account, confirmation letters were sent out to 137 selected debtors based on the Aging of the Accounts Receivable as at year-end.
- 1.21 Out of the 137 confirmation letters sent, 13 or 9.49 per cent were with reply, 11 were returned by the post office marked with “moved out”, “unknown address” and “no one to receive”, while 113 have no reply. Results of the confirmation is summarized below:

Table 3. Results of Confirmation

Particulars	No. of Debtors	Amount per Books
Confirmed a different balance	13	P 270,948,482
Returned by Post Office	11	267,688,590
No replies	113	2,105,336,365
	137	P 2,643,973,437

- 1.22 Comparison of accounts receivable balance of the 13 debtors with confirmation replies showed a total discrepancy of P304.102 million, details as follows:

Table 4. Discrepancies between SL and Result of Confirmation

Name of Debtor	Per Subsidiary Ledger (in Php)	Per Confirmation			Discrepancy Php
		Php	US\$	Total Php	
Qatar Airways-Clark	4,782,717	381,273	7,407	381,273	4,401,444
All Nippon Airways Co. Ltd.	62,853,374	20,608,550		20,608,550	42,244,824
Astro Air International Inc.	28,299,718	22,269,265		22,269,265	6,030,453
Philippines Airasia Inc, (International)	92,895,495	263,431,034		263,431,034	170,535,539
Kuwait Airways	3,482,555	3,244,808		3,244,808	237,747
Small Planet Airlines	0	352,007		352,007	352,007
Zenith Air	176,232	395,813		395,813	219,581
Philippines Airasia Inc, (Domestic)	30,820,272	76,611,441		76,611,441	45,791,169
United Parcel Services	13,643,423	3,176,192	61,847	3,176,192	10,467,231
Malindo Airways	11,755,545	7,773,190	49,649	7,773,190	3,982,355
Tway Co. Ltd.	19,563,693	0		0	19,563,693
Island Aviation Corp.	100,458	0		0	100,458

Name of Debtor	Per Subsidiary Ledger (in Php)	Per Confirmation			Discrepancy Php
		Php	US\$	Total Php	
Mactan-Cebu Int'l.	2,575,000	2,400,000		2,400,000	175,000
Total	270,948,482	400,643,573	118,903	393,647,693	304,101,501

- 1.23 We noted instances where the SLs of clients were not timely updated to reflect payments received by the Authority contributing to the variance.
- 1.24 **We recommended and Management agreed to instruct the Chief Accountant to:**
- a. **Issue demand letters to debtors with past due accounts;**
 - b. **Request for write-off of dormant balances in the Accounts Receivable account;**
 - c. **Conduct an in-depth examination of the variances between the GL and the SL and prepare the necessary adjusting entries, if warranted;**
 - d. **Analyze the abnormal/ negative balances in the account and prepare the necessary journal entry to correct the misstatement; and**
 - e. **Coordinate with the debtors and reconcile the variances between accounting records and confirmation replies.**
- 1.25 Management commented that the Accounting Division conducted an evaluation of past due accounts. For existing and active clients, demand letters shall be prepared and sent. On the other hand, for non-active clients, they will prepare the necessary documents and procedures for the request for write-off of dormant accounts. They also committed to conduct an individual verification from clients to reconcile GL and SL balances and establish correct SL balances.
- 1.26 Moreover, the negative balances of AR resulted from the practice of the Authority to collect payment in advance for clients who apply for non-scheduled flights or for those who do not have credit line with the Authority yet. Management further explained that they collect advance payment as a security measure since these clients are not billed on a regular basis. Meanwhile, the Accounting Division is already identifying negative balances which are not caused by advance payment for reclassification.

2. The balances of the Property and Equipment (PE) accounts with a total amount of P79.513 billion as of December 31, 2019 are unreliable due to the a) unreconciled variance of P33.752 billion between the accounting and inventory records; b) non-maintenance of Property, Plant and Equipment Ledger Cards (PPELC) and Property Cards (PC); c) non-recording of transferred/donated properties; and d) non-derecognition of unserviceable properties with a total cost of P99.897 million.

- 2.1 Paragraph 15 of Philippine Accounting Standard (PAS) 1 provides that:

“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of PFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.”

- 2.2 Moreover, the Philippine Financial Reporting Standards (PFRS) provides for the following qualitative characteristics of useful information:

QC2 *“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.”*

QC21 *“Comparability enables users to identify and understand similarities in, and differences among items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.”*

QC26 *“Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent.”*

a. Unreconciled variance of P33.752 billion

- 2.3 Physical inventory taking as provided in COA Circular No. 80-124 is an indispensable procedure for checking the integrity of the property custodianship, hence, has to be regularly enforced and corresponding report shall be submitted to the Auditor not later than January 31 of each year unless extended by the Chairman upon prior request of the head of agency concerned. Moreover, all inventory reports shall be reconciled with accounting records.
- 2.4 The fair presentation of the PE accounts in the financial statements totaling P51.929 billion as of December 31, 2019 cannot be ascertained due to the

non-submission of CAAP Head Office (CAAP-HO) and Area Centers (ACs) II, III, IV, V, VI, VII, IX and XII of a complete Report on the Physical Count of Property, Plant and Equipment (RPCPPE) casting doubt on the existence of these properties.

- 2.5 Comparison of the balance per books and the submitted RPCPPE disclosed an unreconciled variance of P33.752 billion as of year-end, details as follows:

Table 5. Variance between PE balances per GL and RPCPPE

Location	Total PE		Variance
	per GL	per RPCPPE	
Head Office	P 4,452,618,756	P 3,540,374,970	P 912,243,786
AC II	4,161,368,793	2,741,045,509	1,420,323,284
AC III	1,266,790,248	-	1,266,790,248
AC IV	11,872,911,772	11,862,960,727	9,951,045
AC V	3,606,697,597	-	3,606,697,597
AC VI	16,291,291,290	-	16,291,291,290
AC VII	1,660,906,890	-	1,660,906,890
AC IX	6,255,608,914	32,112,876	6,223,496,038
AC XII	2,360,586,802	-	2,360,586,802
TOTAL	P 51,928,781,062	P 18,176,494,082	P 33,752,286,980

- 2.6 In the course of our audit, it was noted that CAAP-HO, and ACs II, III, IV, V, VI, VII, IX and XII did not submit a complete RPCPPE, thus casting doubt on the existence of the recorded properties.
- 2.7 Moreover, the RPCPPE of ACs VI and VII were not prepared in accordance with the prescribed format and the property and equipment items were not categorized to its proper account classification, hence, the information provided by the inventory report cannot be compared with the balance per books.
- 2.8 Further, the Inventory Committee was not able to conduct a reconciliation between property and accounting records, hence, the accuracy of the reported balances of PE in the financial statements as of December 31, 2019 could not be ascertained.

b. Non-maintenance of PPELC and PC

- 2.9 Relative to the observation above, the reconciliation of inventory and accounting records of CAAP-HO and ACs IV, V, VI, VII and IX cannot be done due to the continuous non-maintenance by the Supply and Accounting Division of PC and PPELC or if maintained, were not prepared in the prescribed form, not updated and lacked the necessary information needed for the application of alternative audit procedures.

c. Non-recording of donated/transferred properties

2.10 Paragraphs 7 and 15 of PAS 16 provides the criteria in the recognition of the cost of an item of Property, Plant and Equipment.

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

(a) It is probable that future 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.”*

2.11 Our audit disclosed that several transferred properties were not recognized/recorded in the books of the Authority, details as follows:

Table 6. Schedule of Transferred/Donated properties				
Location	Account	Particulars		Amount
AC II	Land Improvement	Land improvement project from Department of Transportation (DOTr)	P	450,293
AC VII	Motor Vehicles	Various motor vehicles		5,153,904
AC XII	Airport Systems	Siargao Airport Extension of Runway Project from DOTr		
	Motor Vehicle	One (1) unit Mitsubishi Mirage service vehicle from CAAP HO		
	Other Property, Plant and Equipment (OPPE) – Work / Zoo	Donated 28 K9 dogs		

2.12 It was informed that the properties in AC XII were unrecorded due to the lacking documents supporting the donation/transfer necessary for the identification of cost and its accumulated depreciation as well as the remaining useful life at the time they were received. The same is observed

on several motor vehicles of AC VII besides those provided with amounts. The land improvement project in AC II was also not included in the RPCPPE.

- 2.13 The non-recognition/non-recording of the donated/transferred properties understates the corresponding PE accounts, thus, adversely affecting the fair presentation of the financial statements.

d. Non-derecognition of unserviceable property and equipment – P99.897 million

- 2.14 Paragraph 67 of PAS 16 provides that:

67. *“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”*

- 2.15 Results of inspection conducted in the CAAP-HO facilities disclosed that various unserviceable properties continued to be undisposed and remained in the books of accounts:

Table 7. Schedule of Unserviceable Properties

Particulars	Cost
Aircraft	P 97,061,791
Motor Vehicles	2,029,000
Various IT, Office and Other Equipment	806,696
TOTAL	P 99,897,487

- 2.16 Included in the Aircraft is the overhauling of engine of CAAP Inspection Aircraft RP 2100, Beechcraft Model totaling P87.210 million capitalized in 2010, however, the aircraft itself was not recognized in the books. It was informed that during the testing period in 2011, the engine had an abnormal smoke emission, hence the aircraft had not been used to date and was marked in the Report on Physical Count of Aircraft and Aircraft Ground equipment as unserviceable.
- 2.17 On the other hand, while there was an attempt to dispose the motor vehicles with cost totaling P4.00 million as evidenced by the prepared Inventory and Inspection Report of Unserviceable Property (IIRUP) but the bidding process it underwent was declared a failure for the reason that the bid price of the bidders was below the floor price. For the rest of the unserviceable properties, no action was taken and the same continued to remain in the books and inventory records.

2.18 One hundred thirty-three (133) units of unserviceable property and equipment were also not derecognized in AC III, the values of which were undetermined due to non-submission of RPCPPE. Likewise, in AC XII, various unserviceable properties were instead stored at storage rooms or bodegas of the area center and satellite airports.

2.19 The continuous non-derecognition of the unserviceable properties overstates the assets of the Authority thereby casting doubt on the reliability of the PE account balances.

2.20 We recommended and Management agreed to instruct:

- a. The Supply Officer and the Chief Accountant to reconcile the variance between the accounting and inventory records;
- b. The Accounting Division in CAAP-HO and ACs IV, V, VI, VII and IX to maintain the PPELC which should be reconciled with the PC maintained by the Supply Division, both prepared in prescribed form;
- c. The Supply Officer of ACs VII and XII to make representation with DOTr and CAAP-HO to secure the necessary documents related to the unrecorded transfer/donation of properties and the Accounting Division of ACs II, VII and XII to draw the necessary adjusting entries to record the assets in the books of accounts; and
- d. The Supply Officer of CAAP-HO, AC III and XII to report all the unserviceable properties in the IIRUP to prepare such properties for the disposal. Likewise, direct the Accounting Division to draw the necessary adjusting entries to derecognize the unserviceable properties from the books of accounts.

3. The balance of Construction in Progress (CIP) account amounting to P1.365 billion for the year ended December 31, 2019 included completed projects and unsubstantiated transaction in the total amount of P661.473 million and P7.679 million, respectively, resulting in the understatement of Depreciation Expense by P44.506 million and overstatement of Retained Earnings by P138.654 million.

3.1 Analysis of the ending balance of Construction in Progress (CIP) account showed the following balances as of December 31, 2019.

CIP- Land Improvements	P 234,885,939
CIP- Infrastructure Assets	911,743,596
CIP- Buildings and Other Structures	<u>218,169,394</u>
Total	P <u>1,364,798,929</u>

- 3.2 Analysis of the account disclosed that of the total amount of P1.365 billion, CIP costing P67.706 million were confirmed completed during the year as per report of Aerodrome Development and Management Services (ADMS) and P593.767 million were completed in prior years as reported in the 2018 Annual Audit Report (AAR). Said completed projects are still recorded under the CIP account instead of reclassifying them to appropriate Property and Equipment (PE) account.
- 3.3 Although there is no effect on the total PE account balance in the financial statements, the non-reclassification of the CIP-Other Infrastructure account to its appropriate Infrastructure Assets accounts resulted in the overstatement of the CIP account, understatement of the Due from Regional Offices and Understatement of the appropriate PE account as of year-end. Likewise, the Depreciation Expense and Retained Earnings are understated and overstated, respectively by P44.506 million and P138.654 million.
- 3.4 Further verification revealed that there were recorded transactions during the year amounting to P7.679 million which were not supported with proper documents.
- 3.5 **We recommended that Management direct the Chief Accountant to:**
- a. **Prepare the necessary adjusting entries for the reclassification of the completed projects from CIP-Infrastructure Assets and Buildings and Other Structures accounts to appropriate Property and Equipment (PE) and Due from Regional Offices accounts;**
 - b. **Recognize and record the necessary adjusting entries to correct the Depreciation Expense, Accumulated Depreciation and Retained Earnings accounts;**
 - c. **Timely review the processing of Acceptance Report for the completed projects; and**
 - d. **Obtain the necessary documents to support the transaction.**
- 3.6 The Accounting Division suggested that recording of PE from CIP be allowed upon completion of the projects since the two criteria for initial recognition, as provided under PAS 16, are met.
- 3.7 With the issue at hand, the audit team agrees that completed projects should be reclassified to particular PE accounts at the time of completion in accordance with PAS 16. As such, the Chief Accountant needs only to secure sufficient documentation (Certificate of Completion, Inspection and Acceptance Report) to show that *(1) it is probable that the future economic benefits associated with the asset will flow to the entity, and (2) the cost of the asset can be measured reliably.*

4. The practice of recording requests for inspection for the issuance of aircraft/airmen certificates as income prior to the satisfaction of performance obligations of the Authority is not in accordance with Philippine Financial Reporting Standard (PFRS) 15 on Revenue from Contracts with Customers resulting in the overstatement of both the Other Receivables account as well as the Miscellaneous Income account by P42.424 million.

4.1 Paragraph 31 of PFRS 15 on Revenue from Contracts with Customers provides that –

“An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. XXX”

4.2 Meanwhile, Paragraphs 15 and 16 of the same Standard provide that *an entity shall recognise any consideration received from a customer as a liability until the recognition criteria set out by the standard is met.*

4.3 Further, Paragraph 3.1.2(b) of Appendix B of PFRS 9 on Financial Instruments provides that *“assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally **not recognised until at least one of the parties has performed under the agreement.** For example, an entity that receives a firm order does not generally recognise an asset (and the entity that places the order does not recognise a liability) at the time of the commitment but, instead, delays recognition until the ordered goods or services have been shipped, delivered or rendered.”*

4.4 Audit noted that, of the total amount of P81.743 million recorded in the Other Receivables account as of December 31, 2019, about P42.424 million pertains to billings issued by CAAP and recorded as income from various airlines/operators for the request for inspection/certification of aircrafts/pilots for the period July 2016 to December 2019.

4.5 Further examination noted that there was a steady increase in the amount of receivables from the airlines/operators since 2016 as shown below:

Table 8. Comparison of Total Billings and Collections					
	2016	2017	2018	2019	Total
Billings	P 26,293,447	P 68,427,881	P 95,989,091	P 94,383,896	P 285,094,315
Collections	16,232,032	57,023,898	88,448,996	80,965,717	242,670,643
Uncollected Balances	P 10,061,415	P 11,403,983	P 7,540,095	P 13,418,179	P 42,423,672

4.6 Walkthrough of the end-to-end process of Flight Standards Inspectorate Service (FSIS) of CAAP, from the requests of airline operators/airmen to the

issuances of relevant certificates disclosed that CAAP, upon receipt of the request for inspection, issues a billing statement to the operators/airmen and record the transaction as Miscellaneous Income. Inspections and the subsequent issuance of certificates are then conducted only after receiving payment from the operators/airmen. Audit however noted that not all operators push through with their requests, hence, the large outstanding balance in the Other Receivables account.

- 4.7 The practice of recording requests for inspection as revenue and as receivables is not in accordance with the aforementioned standards which require entities to record revenue and receivables only after satisfying its performance obligation, in this case, the inspection of aircrafts/airmen. Cash received prior to inspection should be recognized in Other Unearned Revenue/Income account until inspections are conducted as provided in Paragraphs 15 and 16 of the aforementioned Standard.
- 4.8 The non-compliance resulted in the overstatement of both the Other Receivables account as well as the Miscellaneous Income account by about P42.424 million.
- 4.9 We recommended and Management agreed to instruct the Chief Accountant to:**
- a. Strictly abide by the guidelines set under PFRS 15 when recognizing income from issuance of aircraft/airmen certificates;**
 - b. Coordinate with the FSIS to create a formal and documented process on the recording of income arising from requests for inspection/ certification from airmen/airline. This is to ensure that necessary documents at the time of fulfilment of the performance obligation of CAAP are duly and timely submitted to the Accounting Division for recording purposes. The Internal Audit Service shall review the process to ensure that controls are in place and that it is compliant with existing regulations;**
 - c. Record cash received from operators as Other Unearned Revenue/ Income until such time CAAP fulfills its performance obligation, which is to conduct the necessary inspection; and**
 - d. Reconcile records to determine the exact amount of overstatement in the Miscellaneous Income and Other Receivables accounts and prepare the necessary adjusting entry to retrospectively effect PFRS 15 on the outstanding balance recorded under the Other Receivables account.**

5. The Other Receivables account amounting to P81.743 million as of December 31, 2019 is overstated due to the non-recognition of Allowance for Impairment as required under PFRS 9 on Financial Instruments and absence of supporting documents.

5.1 PFRS 9 requires that after initial recognition, receivables account shall be measured at amortized cost. Amortized cost is the amount at which the receivable is measured at initial recognition minus the principal payments, plus or minus the cumulative amortization and adjusted for any loss allowance. At each reporting date, an entity shall measure the loss allowance of the receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition otherwise at an amount equal to 12-month expected credit losses.

5.2 Moreover, Section 114 of Presidential Decree (PD) No. 1445 provides that:

(1) *"The government accounting system shall be on a double entry basis with a general ledger in which all financial transactions are recorded."*

(2) *"Subsidiary records shall be kept where necessary."*

5.3 After examining available records, the Audit Team was able to come up with the schedule/breakdown of the Other Receivables account:

Table 9. Details of Other Receivables account		
Particulars	Amount	Remarks
Cash advances of deceased, retired, resigned and separated employees	P 30,014,722	
Cash Advances of flight inspectors	999,002	
Uncollected billings for requests for inspection (2016-2019)	42,423,672	
Area Center Balance	1,120,918	
Unaccounted balance	7,184,572	No details/breakdown
Balance, December 31, 2019	P 81,742,886	

5.4 The initial amount recognized for other receivable shall be reduced by adjustments which will reduce the amount estimated to be recoverable from the customer. This is based on the established basic principle that "assets should not be carried at above their recoverable amount".

5.5 As of December 31, 2019, the Other Receivables account stood at P81.743 million. Of this amount, P30.015 million pertains to unliquidated cash advances of CAAP employees who were either separated, retired, resigned, and deceased disbursing officers which have remained outstanding for three

(3) to more than 25 years. Such is an indication that these accounts are already impaired. When the accounts become uncollectible, an entity has sustained impairment losses. However, we noted that the allowance for impairment on the Other Receivables account as of year-end stood at a meager balance of P1.123 million – an amount clearly insufficient considering the length of time these balances have remained outstanding and uncollected.

- 5.6 Further, we gathered that the Accounting Division currently does not have a clear and documented process on the recognition of impairment of the Other Receivables account.
- 5.7 Meanwhile, P7.185 million refers to balances which does not have supporting documents, hence, should be reconciled with accounting records to determine the details and nature of these accounts and whether these receivables are still collectible.
- 5.8 The non-recognition of Allowance for Impairment-Other Receivables account (10399992) and absence of the supporting documents resulted in the overstatement of the Other Receivables account as well as the understatement of the related Impairment Loss account. It also casts doubt as to whether the account was fairly presented in the statement of financial position.
- 5.9 **We recommended and Management agreed to direct the Chief Accountant to formulate and implement a policy on the provision of allowance for impairment for Other Receivables account, and reconcile and maintain the necessary subsidiary ledgers to ensure that the account is fairly presented in the financial statements.**

6. The recorded balances of PE, Depreciation Expense and Accumulated Depreciation Expense accounts of CAAP-HO and AC III are doubtful due to a) misclassification of accounts; and b) non-recognition/errors in computation of depreciation which are not in accordance with COA Circular No. 2020-002 and Philippine Accounting Standard (PAS) 38.

- 6.1 Annex C of COA Circular No. 2020-002 dated January 28, 2020 describes the following PE Accounts:

<i>“Office Equipment</i>	<i>This account is debited to recognize the cost incurred in the purchase or assembly, or fair value, if acquired through donation or transfers without cost, of office equipment for use in government operations, which met the prescribed capitalization threshold. It includes</i>
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duplicating/photocopying machines, air conditioning units and the like.

Other PPE

This account is debited to recognize the cost of acquisition or fair value, if acquired through donation or transfers without cost, of other property, plant and equipment not falling under any of the specific Property, Plant and Equipment account.

Computer Software

This account is debited to recognize the purchase cost or capitalized development cost of computer software programs for use in government operation, when the software is not an integral part of the related hardware. Development costs include cost of coding, testing and cost to produce product masters. This account is credited upon derecognition of the asset, and/or adjustments.”

- 6.2 For spare parts of Property and Equipment replaced, paragraph 14 of Philippine Accounting Standard (PAS) 16 provides that:

14 *“A condition of continuing to operate an item of property, plant and equipment may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.”*

- 6.3 Whereas, PAS 38 defines an Intangible Asset as an identifiable non-monetary asset without physical substance. Paragraph 12 provides that an asset is identifiable if it either:

- (a) *“is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so”; or*

- (b) *“arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations”.*

6.4 Paragraphs 21, 25 to 27, 88 and 97 of the same standard provides that:

21 *“An intangible asset shall be recognized if, and only if:*

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably.”

25 *“Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for separately acquired intangible assets.”*

26 *“In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.”*

27 *“The cost of a separately acquired intangible asset comprises:*

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any directly attributable cost of preparing the asset for its intended use.”

88 *“An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.”*

97 *“The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, ie when*

it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognized.”

a. Misclassification of accounts

6.5 In the course of our audit, we noted property items that were erroneously recorded in the books of accounts, details are as follows:

Table 10. Schedule of Misclassified accounts

Account	Per GL	Per Audit	Difference	Remarks on the Difference
Office Equipment	P 58,301,548	P 57,995,493	P (306,055)	P342,871 should be reclassified to Other PPE P36,816 reclassified from Other Machineries and Equipment
Information and Communication Equipment	593,206,083	587,959,441	(5,246,642)	Should be Computer Software
Airport Equipment	299,889,243	299,867,993	(21,250)	Should be expensed
Other Machineries and Equipment	32,608,703	32,498,552	(110,151)	Should be Other PPE or Office Equipment
Furniture and Fixtures	11,277,962	11,156,668	(121,294)	For adjustment
Other Property Plant and Equipment	2,542,235	2,958,767	416,532	Reclassify from Office Equipment or Other Machineries and Equipment
	P 997,825,774	P 992,436,914	P (5,388,860)	

6.6 Part of P5.389 million net difference pertains to the purchase of the Instrument Flight Rule (IFR) Procedure Design Software with a total contract amount of P13.280 million, gross of Value-Added Tax (VAT). The entire delivery was composed of two Software Licenses, six laptops and training of eight personnel. The laptops were properly recorded as Information and

Communication Technology Equipment, however, the IFR Software should have been capitalized as Computer Software as it can only be accessed in the purchased laptops through the use of the two licenses contained in a dongle hence, only two laptops may be used at a time. This is an indication that the software may be identified separately. Moreover, its cost can be measured reliably meeting the recognition principle provided by PAS 38. The cost of training of eight personnel which was reclassified to Training Expenses account per Journal Entry Voucher (JEV) No. F-19-12-177 should also be capitalized and included in the cost of the software since it is significant to properly utilize the asset.

- 6.7 Further, it was noted that the contract cost of P13.280 million was apportioned in the books as follows:

Training Expense	P 5,623,928.57
IFR Software	5,500,000.00
Laptop	733,214.29
Input Tax	1,422,857.14
Total	P 13,280,000.00

- 6.8 The Bills of Materials Detailed Estimates which is a required attachment on the financial component of the contract provides the breakdown of the cost:

IFR Software	P 6,160,000.00
Laptop	810,000.00
Training of 8 personnel	2,765,000.00
Sub-total	9,735,000.00
Transportations and Other Direct Cost	486,750.00
OCM and Profit	3,066,525.00
VAT	1,594,593.00
Total Amount (Inclusive of VAT)	14,882,868.00
Special Lump Sum Discount	(1,602,868.00)
Total	P 13,280,000.00

- 6.9 The cost of an asset purchased at a lump-sum price shall be distributed based on the relative fair value of the assets acquired, in this case the fair value of which amounted to P6.160 million, P0.810 million and P2.765 million respectively, thus, should have been apportioned as follows:

Table 11. Detailed Allocation of Cost			
	Net of VAT	VAT	Total
IFR Software (6.160/9.735 x 13.280M)	P 7,502,824.86	P 900,338.98	P 8,403,163.84
Laptop (0.81/9.735 x 13.280M)	986,572.75	118,388.73	1,104,961.48
Training Expense (2.765/9.735 x 13.280M)	3,367,745.25	404,129.43	3,771,874.68
Total	P 11,857,142.86	P 1,471,352.67	P 13,280,000.00

- 6.10 Our audit also disclosed that the cost of the properties in Property Acknowledgement Receipt (PAR) issued were gross of VAT instead of net of input tax.

b. Non-recognition/Errors in computation of Depreciation

- 6.11 Verification disclosed that the following property accounts do not reflect the correct accumulated depreciation balances of CAAP-HO as of December 31, 2019:

Table 12. Comparison of Accumulated Depreciation			
Account	Per GL	Per Audit	Under (Over)
Office Equipment	P 38,173,173	P 37,594,627	P (578,546)
Information and Communication Technology Equipment	365,024,335	360,922,465	(4,101,870)
Airport Equipment	110,237,002	109,087,593	(1,149,409)
Other Machineries and Equipment	15,515,543	15,646,051	130,508
Motor Vehicles	58,291,808	59,752,334	1,460,526
Other PPE	790,424	960,737	170,313
TOTAL			P (4,068,478)

- 6.12 Review of the Accumulated Depreciation accounts on the above-mentioned properties showed that part of the P4.068 million discrepancies are relative to the misclassification errors discussed in the first observation. It was also noted that Office Equipment items that were either transferred to Area Centers or reclassified to another PE account were still computed with depreciation expense.
- 6.13 The Information and Communication Technology Equipment includes items pertaining to purchased CCTV Surveillance Systems for CAAP Head Office and Mindanao airports and CAAP IT Infrastructure Implementation Project. These projects were recorded and recognized in the books upon payment of progress billings and were depreciated separately using the date of statement of account as basis. Depreciation of an asset begins when it is available for use, thus depreciation for the mentioned properties should have started from the date of completion. The same is observed in the Airport Equipment account with properties which were only 80 per cent completed and not yet in use but were already depreciated.

- 6.14 On the part of Motor Vehicles, several vehicles purchased from December 2018 to July 2019 were not computed with depreciation expense while some have abnormal book balances.
- 6.15 In AC III, it was observed that Management did not provide the necessary depreciation for the period January to December 2019.
- 6.16 The misclassification of accounts and non-recognition/errors in computation of depreciation expense cast doubt on the fair presentation and reliability of the PE balances as of year-end.
- 6.17 **We recommended that Management instruct the Officer-in-Charge, Accounting Division to:**
- a. **Identify the nature of the items purchased, check if the P15,000 capitalization threshold is met, and properly classify the same in their appropriate asset accounts;**
 - b. **Derecognize the cost and accumulated depreciation of the parts replaced under the Office Equipment account;**
 - c. **Provide the useful life of the Computer Software;**
 - d. **Require the AC III Accountant to provide the depreciation expense of the property and equipment for the period January to December 2019; and**
 - e. **Draw the necessary adjusting entries to correct the balances of the asset accounts and its related depreciation expense, amortization – intangible assets, accumulated depreciation and accumulated amortization, if any.**
- 6.18 **Likewise, we recommended that Management instruct the OIC, Supply Division to record in the PAR the cost of property and equipment issued net of input VAT.**
- 6.19 On the recommendation to separately record the computer software from the purchased laptops, Management commented that the IFR Procedure Design Software is an integral part of the equipment for the reason that the laptops were purchased because of the software packaged with it. Only two laptops may be used at a time but all six laptops function as purposed due to the software licenses purchased. Further, only these laptops were capable to process the software because of the specification.
- 6.20 The audit team, however, maintain that the IFR Software should be reclassified to the Computer Software account. Although the software and licenses were packaged with the laptops when purchased, it is believed that

the former does not form as an integral part of the related hardware. The laptops may not function as purposed in the absence of the license but it can still operate and perform the functions of a laptop in general. On the other hand, the software can also be transferred, installed and used in another laptop having the same specifications with the ones purchased. Further, the cost of the software can be measured reliably as provided in the Bill of Materials and Detailed Estimates, hence, can also be recognized and recorded in the books separately.

7. The validity of various accruals totaling P13.807 million recorded under Accounts Payable account could not be ascertained due to non-submission of complete and valid supporting documents to substantiate the claims.

- 7.1 Section 4.46 of Conceptual Framework discussed the recognition of liabilities in Philippine Financial Reporting Standards (PFRS) which states– *“A 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.”*
- 7.2 Journal Entry Voucher (JEV) Nos. F-19-12-129 and F-19-12-166 both dated December 31, 2019, were recorded in the books of accounts to recognize unpaid claims as of year-end totaling P238.182 million. Audit disclosed that out of the said amount, P13.807 million did not have sufficient documents attached to the JEV to support its recognition in the Accounts Payable account in violation of the above-mentioned provisions.
- 7.3 Per inquiry with the Chief Accountant, he asserted that he cannot present the supporting documents to these accruals as the documents were attached to various disbursement vouchers and are already in various stages of the payment process. Further, the Division did not secure certified copies of the supporting documents to be attached to the JEV.
- 7.4 Considering the circumstances, the Audit Team was precluded from ascertaining the validity of these claims totaling P13.807 million.
- 7.5 **We recommended and Management agreed to instruct the Chief Accountant to immediately submit the necessary documents to support the recognition of liabilities of and claims against the Authority, otherwise, prepare the necessary JEV to correct the misstatement by debiting Accounts Payable and crediting the Retained Earnings or the appropriate Asset account.**

8. Long outstanding payables amounting to P6.452 million as at December 31, 2019 remained recorded under Accounts Payable and were not reverted to Miscellaneous Income, contrary to the Conceptual Framework in Recognition of Liabilities and Section 98, Presidential Decree (PD) No. 1445; and Accounts Payable was erroneously credited with the purchase of motor vehicle of P6.600 million.

a. Unreverted long outstanding payables totaling P6.452 million

- 8.1 Section 4.46 of Conceptual Framework provides the recognition of liabilities in Philippine Financial Reporting Standards (PFRS) which states– *“A 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.”*
- 8.2 Moreover, Section 98 of PD No. 1445 states that:
- “Reversion of unliquidated balances of accounts payable. The Commission, upon notice to the head of agency concerned, may revert to the unappropriated surplus of the general fund of the national government, any unliquidated balance of accounts payable in the books of the national government, which has been outstanding for two years or more and against which no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts on record. This section shall not apply to unliquidated balances of accounts payable in trust funds as long as the purposes for which the funds were created have not been accomplished.”*
- 8.3 Examination of the Schedule of Accounts Payable account as of December 31, 2019 showed that the account includes payables amounting to P6.452 million, which have remained in the books for more than 2 years.
- 8.4 Considering the length of time these accounts have been outstanding with no valid claims filed with the Authority, these should be adjusted pursuant to the provisions of the Conceptual Framework and PD No. 1445.

b. Overstatement amounting to P6.600 million of the Accounts Payable account due to the erroneous recording of a purchase of motor vehicle

- 8.5 Verification of the Schedule of Accounts Payable as of December 31, 2019 disclosed that purchase of Motor Vehicle amounting to P6.600 was already paid through check number 5752 dated December 27, 2019, however the same transaction was still recorded in the Accounts Payable account through JEV No. F-19-12-129 dated December 31, 2019, thus overstating the account.

- 8.6 We recommended and Management agreed to instruct the Chief Accountant to prepare the necessary adjusting entry to revert the Accounts Payable which have remained outstanding for more than two years to Retained Earnings and to correct the erroneous recording of the motor vehicle.
9. The accuracy and completeness of the recorded balance of Accounts Payable is doubtful due to discrepancies between the General Ledger (GL) balance as compared with Subsidiary Ledger (SL) balances as of December 31, 2019 amounting to P492,871.
- 9.1 Q12, **Faithful representation** of the Conceptual Framework of Financial Reporting provides that *“Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The Board’s objective is to maximise those qualities to the extent possible.”*
- 9.2 Analysis of Accounts Payable account disclosed a discrepancy between the GL and SL balances amounting to P492,871 as of December 31, 2019. Details are shown below:
- | | | |
|---|--------------------|---------------------------|
| Table 13. Difference between GL and SL of Accounts Payable account | | |
| Balance per GL | | P 458,457,921 |
| Balance per SL | | |
| Current year set-up of accruals | 326,032,062 | |
| Unpaid balance as of year-end | <u>132,918,730</u> | <u>458,950,792</u> |
| Difference (GL-SL) | | P <u>(492,871)</u> |
- 9.3 Examination of the account showed that the Authority contracted the services of SITA, a Switzerland-based company, to provide IP Connectivity to the Authority. Given that payments are made in US Dollars, there are instances where the amount to be recorded in the payables account at the time of accrual will be different than the amount to be recorded at the time of payment due to foreign currency translations. We observed that the aforesaid difference in the SL was not taken into account. For CY 2019, this practice resulted in the difference in the GL and SL balance amounting to P19,072.
- 9.4 The failure of the Authority to maintain proper and accurate records casts doubt on the reliability and accuracy of the balance of the account.

9.5 We recommended and Management agreed to instruct the Chief Accountant to verify the difference noted, reconcile the same and make the necessary adjusting entry in order to provide a reliable and accurate financial records.

10. Inconsistent application of tax base in computing Output Tax for financial reporting purposes resulted in understatement of Output Tax and overstatement of revenues in the financial statements of AC VI amounting to P27.505 million, contrary to Paragraph 15 of PAS 1 on fair presentation of financial statements.

10.1 Paragraph 15 of Philippine Accounting Standard 1, on presentation of the Financial Statements provides that – *“Financial statements shall present fairly the financial position, financial performance and cash flows of the 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. The application of PFRS, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation.”*

10.2 Paragraph 91 of Framework for the Preparation and Presentation of Financial Statements states that- *“A 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.”*

10.3 Examination of the Output VAT recognized in the books for the months of January to December 2019, revealed that the recorded Output VAT for each revenue were insufficient due to erroneous application of the tax base used in computing the VAT for the months of October to December 2019. Instead of using the Revenue amounts as basis, the Area Accountant used the amounts of collections as tax base resulting in the overstatement of revenue accounts and understatement of Output Tax amounting to P27.505 million.

Table 14. Schedule of Variance of Output VAT per Account

ACCOUNT	ACCT. CODE	REVENUE	OUTPUT VAT (as computed)	OUTPUT VAT (as recorded)	VARIANCE
Clearance and Certification Fees	40201040	79,878.75	8,558.44	8,558.43	0.01
Licensing Fees	40201060	247,821.68	26,552.32	26,552.32	0.00
Inspection Fees	40201100	14,943.51	1,601.09	1,601.09	0.00
Other Service Income	40201990	16,748,059.84	1,794,434.98	1,624,426.24	170,008.74

ACCOUNT	ACCT. CODE	REVENUE	OUTPUT VAT (as computed)	OUTPUT VAT (as recorded)	VARIANCE
Rent/ Lease Income	40202050	44,916,856.25	4,812,520.31	3,477,698.50	1,334,821.81
Transportation System Fees	40202070	1,164,840,450.00	124,804,333.93	102,787,584.42	22,016,749.51
Landing and Parking Fees	40202120	239,714,772.01	25,683,725.57	22,752,598.21	2,931,127.36
Income from Communication Facilities	40202380	53,874,429.93	5,772,260.35	5,383,712.52	388,547.83
Other Business Income	40202990	41,824,999.57	4,481,249.95	3,826,098.59	655,151.36
Miscellaneous Income	40603990	2,848,833.04	305,232.11	296,693.47	8,538.64
TOTAL		1,565,111,044.58	167,690,469.06	140,185,523.79	27,504,945.27

- 10.4 The practice should be corrected in compliance with Paragraph 15 of PAS 1 and Paragraph 91 of Framework for the Preparation and Presentation of Financial Statements.
- 10.5 We recommended that the Accountant rectify the error, make the necessary adjustments/disclosures and ensure compliance to Par. 15 of PAS 1 to fairly present the affected accounts in the financial statements.**
- 10.6 The accountant acknowledged the deficiency and will correct the error made on the recording of the last quarter output tax and necessary disclosures will be made in the Notes to Financial Statements.
- 11. The existence and accuracy of the Other Supplies and Materials Inventory (OSMI) account with a balance of P63.994 million as of December 31, 2019, is unreliable due to (a) non-existing inventories, (b) unrecorded inventory issuances, and (c) misclassification of inventory accounts.**
- 11.1 The Revised Chart of Accounts for Government Corporations, as adopted in COA Circular No. 2020-002 provides that *“Other Supplies and Materials Inventory account shall be used to recognize the cost of purchased/acquired supplies and materials not falling under any of the specific inventory accounts held for consumption. This account is credited for issues to end-users, transfers, losses, other disposals, and/or adjustments”*.
- 11.2 Records showed that the account has a balance of P63.994 million as of December 31, 2019.

11.3 Audit revealed the following observation:

a. Non-existing inventories

11.4 Paragraph 15 of the Philippine Accounting Standard (PAS) 1 requires that:

“The financial statements must “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”.

11.5 In CAAP-HO and Area Center (AC) V, no inventory items pertaining to the account could be presented by the Supply Division to support their inventory balance of P35.775 million and P10.452 million, respectively.

11.6 Further, in CAAP-HO, we gathered that the Accounting Division does not have any details or breakdown of the inventories recorded in the account. It also does not maintain Subsidiary Ledgers or Supplies Ledger Cards which is used to record all receipts and issuances made by the Authority for each type of supplies.

11.7 Interview with a Supply Officer in CAAP-HO also disclosed that it does not maintain OSMI in its warehouse. It has been the practice to immediately issue delivered items to its respective end-users.

11.8 Considering the amount involved, it is necessary for the Accounting Division and the Supply Division to reconcile its records and to determine whether all inventories are indeed issued already as of year-end. The non-existence of inventory balance amounting to P46.227 million as of year-end overstates the account by the same amount.

b. Unrecorded issuances of inventories

11.9 Audit further revealed that various inventories in CAAP-HO totaling P5.831 million were already issued to respective end-users but were still recorded in the account; thereby overstating the account by the same amount. Details are as follows:

Table 15. Breakdown of Unrecorded Issuances

Reference	Particulars	Amount
Ck. No. 326880	Supply and delivery of bulbs, parts, accessories & fixtures of ALS	P 4,340,125
Ck. No. 327053	Supply & delivery of batteries for DEGS at ANS Tech Center	70,000
Ck. No. 330045	Supply & delivery of 6 sets of 50w vhf am Transceiver at ANS Tech Center (excluding the PPE recognized amounting to P3,628,054.50	1,420,896
		P 5,831,021

- 11.10 It was also noted that the proof of issuance was already attached in the respective Disbursement Vouchers and yet the Accounting Division still recorded such under the OSMI account, instead of under the appropriate expense account, thereby overstating the OSMI account and understating the Other Supplies and Materials Expense by P5.831 million.
- 11.11 Meanwhile, in AC V, the Acting Supply Officer and the Acting Maintenance In-Charge admitted that the required Report on Supplies and Materials Issued (RSMI) for issuances of construction materials and materials for repairs were not being prepared regularly, thus contributing to the issue.
- 11.12 It is to be emphasized that due diligence and caution should be exercised at all times in the processing and recording of financial transactions to safeguard against inaccurate or misleading information.

c. Misclassification of inventory accounts

- 11.13 In CAAP-HO, Spare parts for Vaisala meteorological instruments at ANS Tech. Center purchased on August 2018 amounting to P3.947 million was erroneously classified as OSMI instead of the Airport Equipment account. Further, the Accounting Division noted that the amount of P19.504 million was erroneously recorded under OSMI instead of Other Prepayments account. Audit however noted that the Accounting Division cannot provide a detailed breakdown of the aforementioned amount and as to what the nature of these prepayments are to justify the reclassification. This observation was already raised in the 2018 AAR, but no action was taken by the Accounting Division to make the necessary adjusting entries to reflect the correct balance of affected accounts.
- 11.14 Meanwhile, in AC V, we gathered that majority of the transactions charged to the account pertains to construction materials which should be more appropriately charged to the Construction Materials Inventory. We also noted several instances where purchases of office supplies and accountable forms were recorded in the OSMI account instead of the Office Supplies Inventory and Accountable Forms, Plates and Stickers Inventory.
- 11.15 The reconciliation of accounting and property records is a vital control to ensure inventories are properly safekept and that financial records reflect the correct balance of the account. The non-reconciliation, the unrecorded deliveries and the numerous misclassification cast doubt on the existence of the inventory and accuracy of the account balance.

11.16 We recommended that Management:

- a. Direct the Chief Accountant and the Chief, Supply Division to conduct a thorough analysis and reconciliation of accounting and property records; and**
- b. Direct the Chief Accountant to prepare the necessary adjusting entries to record unrecognized issuances and to correct the misclassification noted in the account.**

11.17 Management commented that the Accounting Division is still verifying the transactions and collating documents for the recording of inventory issuances. Journal Entry Vouchers (JEV) shall be provided and forwarded once attachments have been completed.

11.18 Further, the OIC of Accounting Division commit to exercise due diligence and caution in recording of financial transactions to ensure fair presentation of Agency's Financial Statement.

11.19 Likewise, JEV#F-20-01-35 and JEV#20-01-36 dated January 1, 2020 were drawn to correct the misclassification of inventory accounts.

11.20 The audit team maintains the observation considering that only P3.947 million out of the P23.451 million of the misclassifications noted was corrected.

12. The reliability, existence and completeness of the Fuel, Oil and Lubricants Inventory account with a balance of P22.134 million as of December 31, 2019 is doubtful due to (a) non-reconciliation between accounting and property records, (b) the erroneous/non-recording of issuance and deliveries, and (c) the lack or absence of a sound internal control system in the monitoring of inventory.

12.1 Annex C of COA Circular No. 2020-002 dated January 28, 2020 defines Fuel, Oil and Lubricants Inventory (FOLI) account 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.

12.2 Audit disclosed the following observations:

a. Non-reconciliation between accounting and property records

12.3 Section 10.1.11 of the Internal Control Standards for the Philippine Public Sector (ICSPPS) provides that *"management should establish physical controls to secure and safeguard vulnerable assets. These include security*

for, and limited access to assets such as cash, securities, inventories, and equipment, which may be vulnerable to risk of loss or unauthorized use. It provides that it is also important that these assets should be periodically counted and compared to control records.”

- 12.4 We gathered that Management did not conduct an inventory count in CAAP-Head Office (HO).
- 12.5 Meanwhile, inquiry with the Supply Division of CAAP-HO revealed that fuel, oil and lubricants are being used by three (3) offices, to wit: Motorpool, for fuel expenses of service vehicles; Air Navigation Service (ANS), for fuel to power Generators of various facilities; and Flight Inspection and Calibration Group (FICG), for Aviation fuel it uses to power an aircraft used during inspection and calibration.
- 12.6 Fuel, oil and lubricants purchased by the FICG and the Motorpool are directly loaded to motor vehicles and aircrafts, thus, does not form part of the inventory. On the other hand, while fuel and lube oil utilized in powering generators/powerplants are as well directly loaded to the generator sets, these are purchased and stocked for contingency in case of power failure, thus should form part of the inventory balance of the account in compliance with the above-mentioned provision.
- 12.7 Fuels for motor vehicles are purchased through purchase orders (POs) and paid upon receipt of the billing statement. Meanwhile, purchase of fuel for the Authority's aircraft as well as fuel and lube oil for generators/powerplants are paid in advance. ANS notifies the supplier to deliver sufficient amount of fuel/lube oil needed to fly its aircraft and with enough inventory for the generators. The consumption for its generators is then monitored periodically by the ANS.
- 12.8 Records showed that the Supply Division did not conduct the physical count of the FOLI account as of year-end. Instead, the ANS, being the end-user of the diesel/fuel used in the operation of the generators, conducts periodic monitoring of fuel consumption and prepares a monthly report therefrom (Generators Operation Record and Fuel Report). Based from the aforementioned report from the ANS, CAAP-HO has a total of 38,349.52 liters of diesel fuel on hand and 492 liters of lube oil as of December 31, 2019, as shown below:

Table 16. Breakdown of FOLI per Location

Powerplant Station	Fuel in Liters	Lube Oil in Liters
Manila Airway Facilities Complex	7,853	82
ATMC Facility	9,976	36
Manila Control Tower	2,704	6
Tagaytay Radar Air Navigation Facility Radar	4,035	184

Powerplant Station	Fuel in Liters	Lube Oil in Liters
Tagaytay Radar Remote Communication Air-to-Ground Receiver	1,176	-
Manila Transmitter	2,838	40
Manila Radar Facility	4,005	144
NAIA 2 New Radar Facility	1,924	-
Civil Aviation Training Center	3,838	-
Total	38,349	492

- 12.9 No. 4 of CY 2019 Notes to Financial Statements of CAAP disclosed that Inventories are valued at the lower of cost and net realizable value, with cost computed using the average cost method. Based from the Prevailing Retail Pump Price in Manila as of December 27, 2019 by the Department of Energy, the common price for Diesel was at P44 per liter. Based on this cost, the FOLI account of CAAP-HO, excluding the cost of lube oil, should amount to only P1.687 million, which is P10.953 million lower than the recorded balance of CAAP-HO of P12.640 million.
- 12.10 While the ANS keeps track of its fuel consumption, we gathered that they do not furnish the Supply Division with the monthly report on fuel for purposes of monitoring and validation, nor for the maintenance of Stock Cards (SCs). Meanwhile, the Accounting Division does not maintain Supplies Ledger Cards (SLCs) which are used to record receipts, issuances and balances and reflecting the unit cost/ total cost of inventory using the average cost method. Every semester, the physical inventory of supplies shall be conducted and reconciled with the SLCs and any discrepancies shall be immediately verified and adjusted. However, for CY 2019, no inventory and reconciliation was done hence, resulted in the noted discrepancy.
- 12.11 The conduct of physical count, the maintenance of appropriate records such as SLCs and SCs, and the subsequent reconciliation of accounting and property records, are all vital internal controls to ensure that Management's assertions as to the existence of its inventories, along with the reliability of its corresponding inventory balances, are indeed complete and accurate. The lack or absence thereof resulted in the difficulty in verifying these assertions as reported in the Authority's financial statements.
- b. Erroneous recording of prepayments and the non-recording of deliveries and utilization of fuel, oil and lubricants used in the operation of generators/powerplants of the Authority***
- 12.12 Examination of relevant records disclosed that the Accounting Division did not record deliveries and utilization of fuel and lube oil purchased and used by the ANS in operating generators/powerplants of the Authority.

- 12.13 Deposit payments to Petron Corporation from CY 2017 to CY 2019 amounting to P3,370,819 were erroneously recorded by the Accountant in either the FOLI account or in the Fuel, Oil, and Lubricant Expenses account (50203090) instead of Other Prepayment account (19902990) despite having no documentation to support delivery or utilization of fuel and despite the glaring fact that some of the disbursement vouchers specifically states that the payments were for “deposit payments”.
- 12.14 Further, we observed that from CY 2017 to CY 2019, aside from the erroneous recording of deposit payments, no delivery or utilization were recorded in the FOLI account of CAAP-HO. Per record, Generators Operation Record and Fuel Report of specific powerplant station, albeit not complete, were attached to disbursement vouchers submitted by the ANS to the Accounting Division for processing of deposit payments. This report contains the beginning and ending balance of fuel and lube oil inventory for a specific month, as well as deliveries and consumptions. While this report does not contain the necessary delivery receipts or other documentary evidence to support the deliveries and consumption of fuel to merit recording in the books of accounts, it is sufficient to inform the Accountant of such events/transactions.
- 12.15 The Accounting Division, however, did not inform nor request from the ANS the submission of pertinent records so that proper accounting can be made.
- 12.16 As shown in the Statement of Account (SOA) of Petron Corporation as of December 31, 2019, the Authority has an outstanding deposit amounting to P1.871 million. As per General Ledger, the Other Prepayment account is zero, further supporting the observation that all deposit payments are recorded in the FOLI and Fuel, Oil and Lubricants expenses account instead of Prepayments.
- 12.17 The erroneous recording of deposit payments understates the Retained Earnings account (for deposit payments recorded in Fuel, Oil and Lubricants Expenses account in previous years) and overstates the FOLI account by P1,871,032. It also understates the Other Prepayment account by the same amount.
- 12.18 Meanwhile, the non-recognition of deliveries and fuel consumption casts doubt on the reliability of Management’s assertions on the completeness and accuracy of the FOLI account.

c. Lack or absence of a sound internal control system in the handling and monitoring of FOLI in CAAP-HO

12.19 Section 10.1.3 of the ICSPPS provides that –

“To reduce the risk of error, waste, or wrongful acts and the risk of not detecting such problems, no singular individual or team should control all stages of a transaction or event. Rather, duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.”

12.20 Audit revealed that the ANS is responsible in the requisition, receipt, custody, usage, monitoring and reporting of the deliveries and corresponding utilization of diesel/fuel maintained by CAAP-HO for its generators/powerplant. This practice lacks the necessary check and balance as required by the aforementioned provision and exposes the Authority to risks of loss, wastage, error and/or misappropriations.

12.21 While we understand that the nature of usage of fuel by power navigation facilities in case of power failure necessitates that fuel inventory be within arm’s reach of the generators/powerplants, internal control measures are necessary to ensure risks are mitigated, if not altogether avoided.

12.22 The Supply Division, being the office in-charge with the overall inventory management of the Authority should be the one handling the requisition, receipt, monitoring and reporting of the FOLI. They should be the one to handle the reorder points to ensure that there are no overstocking, the requisition of inventory and the subsequent deliveries, the monitoring of inventory balances, particularly on the conduct of physical count, maintenance of relevant property records, and the propriety of utilization, and lastly, the reporting of the deliveries, utilization and the overall inventory balance of the account.

12.23 Had appropriate controls been installed and implemented by segregating responsibilities over the FOLI, the necessary property records may have been prepared to enable the Supply Division and the Accounting Division to easily reconcile their records every semester.

12.24 Meanwhile, the lack of a sound internal control system in the management of FOLI contributed to the doubtful reliability of Management’s assertion on the existence, completeness and accuracy of the FOLI account.

12.25 We recommended and Management agreed to:

- a. Direct the Accounting Division and Supply Division, together with the ANS, to conduct a thorough validation and reconciliation of the property and accounting records and to determine the true**

balance of the account. The Chief Accountant shall prepare the necessary adjusting entries to correct any variance noted during reconciliation and to correct the erroneous recording of prepayments and the non-recognition of deliveries and utilization of fuel;

- b. Direct the Supply Division, through an Inventory Committee, to regularly conduct physical count of FOLI and prepare the required Report on Physical Count of Inventories (RPCI) every semester. The report shall be reconciled and submitted to the Accounting Division who, along with the Supply Division, shall conduct the reconciliation of accounting and property records and prepare the necessary adjusting entries to correct any discrepancies;
 - c. Require the Accounting Division and Supply Division to maintain the necessary SLCs and SCs; and
 - d. Instruct the Supply Division to prepare and implement a documented process on the Inventory Management of FOLI. The requisition, receipt, monitoring and reporting of fuel inventory shall be handled by the Supply Division. Further, the process shall include the necessary checks and balances to ensure inventories are monitored and are properly safeguarded against loss, wastage and/or misappropriation.
- 13. The reasonableness and propriety of transactions involving the procurement of fuel, oil and lubricant used in the operation of generators/powerplants of the Authority cannot be ascertained due to the absence of a written contract with Petron Corporation.
 - 13.1 Audit noted that the transaction involving the purchase of fuel with Petron Corporation is not covered by a written contract.
 - 13.2 Inquiry with the ANS revealed that the account with Petron Corporation has been existing since the time of the then Air Transportation Office (ATO) and that they only continued with the practice of procuring the supply they need with the aforementioned supplier. We gathered that even the Statement of Account of the Authority is named after the ATO and not CAAP.
 - 13.3 A contract details the rights and obligations of each party. It is essential as it protects both parties when problems arise. As in the case at hand, CAAP does not have a formal documentation as to the agreement between both parties on the following:
 - 1. Rate at which CAAP is buying the fuel or lube oil
 - 2. Delivery schedule

3. Delivery Charges, if any
 4. Administrative fees, if any
 5. Penalty clause for late deliveries, if any
- 13.4 The absence of a contract between CAAP and Petron Corporation precluded the Audit Team in ascertaining the reasonableness and propriety of the transactions.
- 13.5 We recommended and Management agreed to communicate with Petron Corporation and execute a contract to formally document the agreement between both parties as to the purchase of fuel, oil and lubricants by the Authority. The Management shall ensure the propriety of the contract and that it abides with existing laws, rules and regulations and the terms are not disadvantageous to the Government.**
- 14. The unbilled flights for air navigational charges amounting to P2.728 million and under billings of P435,398 from various airline carriers resulted in the understatement of the Accounts Receivable and Income from Communication Facilities accounts for CY 2019 by P3.164 million.**
- 14.1 Par. 31 of PFRS 15 on Revenue from Contracts from Customers provides that *“an entity shall recognize revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.”*
- 14.2 Meanwhile, Par. 15 of PAS 1 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.”*
- 14.3 Air Navigational Charges are imposed to Airlines Carriers (ACs) for the use of communication facilities owned by CAAP in conformity with the CAAP Circular No. 03-11 series of 2011 dated April 11, 2011.
- 14.4 Section 2 Part III of CAAP Circular No. 03-11 provides for the formula for the computation of Operational Charges for the Overflight and Domestic Commercial and Domestic General Aviation Flights, as follows:

Section 2 Overflight

“A charge in U.S. Dollar or its peso equivalent at the time of payment based on the derived formula for calculating Air Navigational Charges (ANC) which is equal to the distance (D) flown by an aircraft in kilometer divide by 100 (hundred) and multiplied by its weight factor (W).”

$$ANC \text{ (US \$)} = D/100 \times W$$

- 14.5 Income from Communication Facilities or Air Navigational Charges recorded in the books amounted to P6.627 billion as of December 31, 2019.
- 14.6 Verification disclosed that there were flights reported in the Flight Statistics Report (FSR) during the year which were not billed by the Authority amounting to P2.728 million.
- 14.7 On the other hand, review of the Billing Statements for the use of CAAP's communication facilities covering the period January to December 2019 disclosed that there were discrepancies in the number of flights billed and the number of flights reported in the FSR, thereby resulting in the understatement of the ANC by P435,398.
- 14.8 Details of the unbilled/under billing are shown below:

Table 17. Schedule of Discrepancies in Billings per Month			
Month	Unbilled	Underbilling	Total
January	61,536	42,304	103,840
February	49,185	66,628	115,813
March	193,571	231	193,802
April	400,779	23,162	423,941
May	359,760	29,042	388,802
June	68,334	16,955	85,289
July	161,797	17,553	179,350
August	53,856	34,996	88,852
September	56,031	189	56,220
October	487,203	25,122	512,325
November	785,075	943	786,018
December	51,263	178,273	229,536
Total	2,728,390	435,398	3,163,788

- 14.9 Due to the discrepancies noted, the recorded accounts receivable and income from communication facilities accounts were understated by the total amount of P3.164 million.
- 14.10 We recommended that Management instruct the Chief Accountant to send out billing statements to concerned airlines corresponding to the unbilled/under-billed flights for air navigational charges and subsequently record the related receivable and income.**
- 14.11 Management commented that the understatement of income was due to the following:
- Some flights in the list do not show the operator or handler which resulted to unbilled flights. To resolve the matter, personnel from the Accounting Division will regularly coordinate with FSIS to verify each

flight. Meanwhile, a memorandum addressed to the FSIS shall be prepared which will require them to submit aircraft listings on a monthly basis.

- b. Some flights in the Flights Statistic Report were erroneously categorized as International Flights instead of Domestic Flights. This resulted to the understatement of international ANC. The details of these flights are forwarded to appropriate airports for the proper issuance of billings.

- 15. The accuracy and reliability of the Accountable Forms, Plates and Stickers Inventory account with a balance of P145,160 could not be ascertained due to a) non-reconciliation between the accounting and property records; b) erroneous costing of inventory issuances and c) unrecorded inventories. Moreover, poor procurement planning resulted in the unnecessary purchase of accountable forms amounting to P1 million.**

a. Non-reconciliation between the accounting and property records

- 15.1 Section 10.1.6 of the Internal Control Standards for the Philippine Public Sector (ICSPPS) provides that *“the financial records should be reconciled with appropriate documents on a regular basis, as part of the agency’s control activities”*.
- 15.2 Audit disclosed a difference of P5.060 million between the balance reflected in the General Ledger (GL) and the submitted Report on Physical Count of Inventories (RPCI), breakdown as follows:

Balance per GL	145,160
Balance per RPCI*	5,204,730
Discrepancy	5,059,570

**Unit cost was based on available accounting data*

- 15.3 Further, it was noted that no reconciliation between the accounting and property records was conducted during the period, thereby, casting doubt on the accuracy and reliability of the account balance at year-end.

b. Erroneous costing of inventory issuances resulted in the understatement of the Accountable Forms, Plates, Stickers Inventory account and the overstatement of the Accountable Forms Expenses account by P1.550 million

- 15.4 The Revised Chart of Accounts for Government Corporations, as adopted in COA Circular No. 2020-002 dated January 28, 2020 provides that *Accountable Forms Expense shall be used to recognize the cost of accountable forms with or without money value such as official receipts,*

passports, tickets, permit/license plates, and the like, issued to end-users/clients.

- 15.5 Upon issuance of accountable forms to respective users, the Supply Division shall prepare the Report on Supplies and Materials Issued (RSMI). This will be submitted to the Accounting Division for proper costing and recording in the book of accounts. However, audit revealed that the Accountant committed numerous errors in the costing of items issued. There were instances wherein a cost assigned to an item includes the input tax paid for the purchase, or an erroneous unit cost was used.
- 15.6 Had the Supplies Ledger Cards (SLCs) been maintained for each inventory item, issuance could have been properly monitored.
- 15.7 These errors resulted in the understatement of the Accountable Forms Inventory by P1.550 million and the overstatement of the Accountable Forms Expense by the same amount.

c. Various unrecorded inventories

- 15.8 Philippine Accounting Standard (PAS) 2 on Inventories states that *inventories shall be measured at the lower of cost and net realizable value. The practice of writing inventories down 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. The cost of an inventory is affected by its condition and whether it is wholly or partly obsolete.*
- 15.9 The RPCI also reported various accountable forms which were not reflected in the year-end balance of the account. Some of the discrepancy was due to previous years' purchases made by the Authority which were directly recorded as expense. Considering the lack of cost in the inventory report, we were precluded in determining the total understatement on the account due to the non-recording.
- 15.10 Audit further noted that these inventories pertain to unused non-VAT parking fee tickets, terminal fee tickets and official receipts. Considering the recent registration of CAAP as a VAT-registered entity and its purchase of VAT accountable forms, these inventories are already obsolete and unusable. As such, the amount corresponding to these inventories should be written down by recognizing Allowance for Impairment – Accountable Forms.
- 15.11 More importantly, since these inventories are already obsolete and unusable, it should be submitted to COA for appropriate disposal as prescribed under Section 99 of Government Accounting and Auditing Manual (GAAM) Volume 1 which provides that – *“Accountable officers shall submit to the COA Unit Auditor all obsolete, spoiled, and cancelled official receipts and other accountable forms for inspection and destruction.”*

- 15.12 Once these inventories are disposed accordingly, it should be dropped from the books of accounts, along with the recognized Allowance for Impairment.
- 15.13 Audit also revealed that 460 booklets of official receipts with a total cost of P123,216 were not reflected in the RPCI. These pertain to VAT ORs which were erroneously excluded in the physical count.
- 15.14 It is to be emphasized that reconciliation of accounting and property records is a vital internal control to ensure that Management's assertions as to the existence of its inventories, along with the reliability of its corresponding inventory balances, are indeed complete and accurate. Physical inventory will just be a futile exercise if no reconciliation will be done.
- 15.15 In addition to the above observations, audit also revealed that the Authority purchased 10,000 booklets of non-VAT Official Receipts (ORs) amounting to P1 million under Check No. 338939 dated May 14, 2019. These ORs were delivered on July 15, 2019.
- 15.16 Section 7 of the Revised Implementing Rules and Regulations of RA No. 9184 provides that *"the procuring entity shall ensure that all procurement is meticulously and judiciously planned, which means that only those considered crucial to the efficient discharge of governmental functions shall be included in the Annual Procurement Plan and procured therefrom"*.
- 15.17 Examination of records revealed that the Supply Division, as stated in the Memorandum of the Chief, Supply Division dated March 28, 2019, estimated that the old stocks of ORs will be consumed by May 2019. As such, the aforementioned purchase for 10,000 booklets of ORs, supposedly consumable for five to six months, was made.
- 15.18 However, none of these ORs was used during the year since the Authority has recently become a VAT-registered entity. VAT-registered ORs were procured which were delivered to the Authority last October 2019, rendering the old ORs obsolete and unusable.
- 15.19 This a clear indication of poor planning and ineffective inventory management. The Supply Division should have exercised due diligence and caution in planning and forecasting the need for these inventories as required under the aforementioned guidelines. Likewise, proper coordination with the Accounting Division relative to the Authority's registration as a VAT-registered entity should have been made. Had they done so, the unnecessary purchase of the now obsolete ORs would have been completely avoided.
- 15.20 It is to be emphasized that unnecessary expense is defined under COA Circular No. 2012-003 as an expenditure 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.

15.21 We recommended that the Management instruct:

1. The Chief Accountant:

- a. To prepare the necessary adjusting entries to reflect the correct balance of the affected accounts, including the recognition of Allowance for impairment for obsolete inventories; and
- b. To prepare and maintain SLCs to facilitate the monitoring of inventories and to coordinate with the Supply Division to regularly conduct reconciliation of records and make necessary adjustments in the books of accounts, thereafter.

2. The Supply Officer to submit to this Office all obsolete accountable forms, along with an inventory listing down all the obsolete forms for disposal, in accordance with Section 99 of Government Accounting and Auditing Manual (GAAM) Volume 1.

3. Both the Chief Accountant and the Chief, Supply Division to submit an explanation on the basis for the procurement of the accountable forms and as to why the transaction should not be disallowed in audit.

15.22 Management commented that the Accounting Division has already coordinated with the Supply Division and discussed the mechanism for the reconciliation of both records. Likewise, Supply Division will submit an Inventory Report of Obsolete/Unusable Accountable Forms subject for proper disposal /destruction for proper recording of account.

16. AC IV Management failed to bill the monthly fee, exclusive of utilities amounting to P0.523 million as of December 31, 2019 to two concessionaires who did not operate as of year-end at Puerto Princesa International Airport despite the existence of duly approved contracts of lease contrary to the express stipulations in the contracts, thereby depriving the Authority of additional income that could have been used in its operation.

16.1 Article 1159 of the Civil Code of the Philippines provides that: *“Obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith.”*

16.2 In addition, Article 1643 of the same Code states that, *“In the lease of things, one of the parties binds himself to give to another the enjoyment or use of a*

thing for a price certain, and for a period which may be definite or indefinite. Xxx.”

- 16.3 A contract of lease guarantees the lessee the right to the use of the property and it serves as the authority of the lessor to assess and collect the regular payments from the lessee for a specific period. It also protects both parties and the leased property should any problem arise.
- 16.4 The Authority and Rice 'N' More Kiosk Inc. and Regent Distributor Philippines Inc. entered into contracts of lease on July 31, 2018 (date contract was notarized) and July 23, 2019, respectively which stipulate among others, that:

“Commencement of Lease Contract. *As a general rule, the contract of lease shall commence from the date when the contract of lease/concession is approved. However, if before the approval of the contract, the LESSEE is permitted to possess the premises, impliedly or expressly xxx, such date shall be the reckoning period for the commencement of contract of lease.”*

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

“Pre-Termination Clause. *Should the LESSEE intend to pre-terminate the contract, a two (2) month advance notice shall be given to CAAP-Area/Airport Manager, who in turn, shall inform Corplan, for final approval and assessment of the LESSEE’s outstanding obligation to the LESSOR.”*

- 16.5 Records showed that the said concessionaires failed to operate at Puerto Princesa International Airport (PPIA) as of year-end despite the execution of contracts of lease. They were not billed their monthly fees as of December 31, 2019.
- 16.6 Inquiry with management disclosed that no pre-termination notice was given by Rice 'N' More Kiosk Inc. and CAAP Head Office (HO) likewise did not terminate nor cancel the contract 18 months after its effectivity despite the non-operation of the said concessionaire. The Team was also informed that the leased premises provided for Rice 'N' More Kiosk Inc. was not given to any other prospective concessionaires.
- 16.7 Moreover, records showed several exchanges of communications between CAAP and Regent Distributor Philippines Inc. as regards the architectural design and technical plans, among others of the latter which imply the intention of the concessionaire to pursue with the business operation at PPIA.
- 16.8 Considering that a contract is obligatory in nature, in the absence of any document showing its termination, it must be strictly enforced. Hence, the

two concessionaires are liable for the rental fee totaling P0.523 million, broken down below:

Table 18. Details of Contracts per Concessionaire		
Particulars	Rice 'N' More Kiosk Inc.	Regent Distributor Philippines Inc.
Nature of Business	Rice Toppings	Food and Convenience Store
Lease Term/Duration	July 1, 2018 to June 30, 2020	August 1, 2019 to July 31, 2022
Effectivity of Contract	July 1, 2018	August 1, 2019
No. of Months as of Dec. 31, 2019	18 months	5 months
Rent and Other Fees (exclusive of utilities):		
Monthly Rental Fee	18,144	36,288
Concession Privilege Fee	450	450
Garbage Fee Collection	200	200
Total Monthly Fee	18,794	36,938
Rental Fee Due as of Dec. 31, 2019	338,292	184,690

- 16.9 The failure of the billing section to bill the said concessionaires is contrary to the express stipulations contained in the contracts, thereby depriving the Authority of additional income that could have been generated for its operation.
- 16.10 We recommended that the Acting Area Manager require the Concession In-Charge personnel to bill and collect the total rental fee due as of December 31, 2019 from Rice 'N' More Kiosk Inc. and Regent Distributor Philippines Inc. Henceforth, bill the said concessionaires for the remaining duration of the lease contract unless terminated by the Authority.**
- 16.11 Management commented that the billing section had already billed Rice 'N' More Kiosk Inc. and Regent Distributor Philippines Inc. the total rental fee due as of December 31, 2019.

17. The balance of the Due from National Government Agencies (NGAs) account as compared with the statement of account from the Procurement Service of the Department of Budget and Management (PS-DBM) showed a variance amounting to P11.548 million due to: a) unrecorded delivery of a motor vehicle; b) erroneous recordings in the books; and c) the absence of regular and periodic monitoring of the account thereby casting doubt on the reliability and accuracy of the balance of the account.

17.1 COA Circular No. 2016-005 dated December 19, 2016 prescribes the guidelines and procedures in reconciling and cleaning of books of accounts relative to dormant receivables accounts, unliquidated cash advances, and fund transfers for fair presentation of accounts in the Financial Statements. Section of 7.1 to 7.2 of the said Circular provides that the accountant shall –

7.1 *“Conduct regular and periodic verification, analysis, and validation of the existence of the receivables, unliquidated cash advances, fund transfers, and determine the concerned debtors, accountable officers (Regular and Special Disbursing Officers, Collecting Officers, Cashiers) and the source and implementing government entities concerned”;*

7.2 *“Reconcile the unliquidated fund transfers between the source and implementing government entities, prepare the adjusting entries for the reconciling items noted, and require the liquidation of the balances; xxx”*

17.2 Comparison between the Statement of Account from PS-DBM and the reported Subsidiary Ledger (SL) balance of the Due from NGAs (PS-DBM) account as of year-end revealed a discrepancy of P11.548 million, as shown below:

	Amount
per CAAP's Books	P 29,901,974
per PS-DBM	18,354,152
Difference	P 11,547,822

17.3 Audit disclosed the following observations contributing to the variance:

- a. ***Unrecorded delivery of one (1) motor vehicle in the approximate amount of P4 million as reflected in the Agency Procurement Request (APR) resulted in the overstatement of the Due from NGAs account and the understatement of the Motor Vehicles account.***

17.4 Paragraph 7 of Philippine Accounting Standard (PAS) 16 provides that –

“The cost of an item of property, plant and equipment shall be recognized as an 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 item can be measured reliably.”

- 17.5 Meanwhile, Section 53.6 of the 2009 Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184, allows the use of procurement agents. It provides that –

“Procurement Agent. *In order to hasten project implementation, Procuring Entities which may not have the proficiency or capability to undertake a particular procurement, as determined by the Head of the Procuring Entity concerned, may request other GOP agencies to undertake such procurement for them, or at their option, recruit and hire consultants or procurement agents to assist them directly and/or train their staff in the management of the procurement function. The GPPB shall issue guidelines to implement this provision.”*

- 17.6 CAAP entered into an undated Memorandum of Agreement (MOA) with the PS-DBM to avail of the latter’s services to conduct procurement activities for the purchase of various motor vehicles in the Authority’s behalf. Inspection conducted disclosed that one (1) Motor Vehicle, a 29-seater coaster, was found inside the Motorpool. The said vehicle was delivered on June 14, 2019. Review of documents revealed that CAAP only has the delivery receipt from Hyundai Alabang and not from the PS-DBM. The Accounting Division was unable to record the transaction in the books of accounts as provided in the aforementioned guidelines due to the lack of delivery receipt as well as any other documents to show the cost of the coaster delivered. Per inquiry, the Supply Division already made verbal representation with the PS-DBM for the provision of the aforementioned documents.
- 17.7 As a result, the Motor Vehicles account is understated and the Due from NGAs account is overstated by an approximate amount of P4 million. Likewise, the Depreciation Expenses and Accumulated Depreciation accounts are also understated in an undetermined amount depending on the total cost of the Motor vehicle.

b. Erroneous recording of refund made by the PS-DBM amounting to P469,680

- 17.8 Examination of the statement of account of CAAP from the PS-DBM revealed that the PS-DBM issued check No.601839 dated June 7, 2019 in favor of the Authority amounting to P469,680. The amount was issued to refund the balance of CAAP with the PS-DBM as of December 31, 2012.
- 17.9 Audit showed that while the refund was duly received by the Authority on November 22, 2019 with Official Receipt No. 1530589, it was erroneously

credited to the Office Supplies Expense Account (50203010) instead of the Due from NGAs account.

c. Absence of regular and periodic monitoring of advances to the PS-DBM

- 17.10 We observed that the Accounting Division does not conduct regular and periodic verification, analysis, validation and reconciliation of its fund transfers contrary to paragraph 7.1 of COA Circular No. 2016-005.
- 17.11 Purchases made by the Authority through the PS-DBM requires advance payment equivalent to the total amount indicated in the Agency Procurement Request (APR). However, there were instances wherein not all items in the APR were delivered due to unavailability of the goods being procured, thus resulting in an overpayment. In this case, the Authority has the option to utilize the remaining fund to pay for subsequent APRs, or request for a refund.
- 17.12 Due to the nature of the transaction, it is imperative that the Accounting Division regularly reconcile with the PS-DBM so as to ensure the correctness of the balance of the account in the books. The accumulation of the huge variance as well as the unrecorded deliveries could have been prevented if a regular and periodic monitoring and reconciliation of fund transfers to the PS-DBM was done.
- 17.13 The continuous occurrence of the aforementioned issues shows the lack of a clear and established process in conducting a regular and periodic verification, analysis, validation and reconciliation of fund transfers within the Accounting Division as required by COA Circular No. 2016-005. A process which, when performed, can easily identify the above issues.
- 17.14 The failure to record these deliveries and the erroneous recording of the refund resulted in the overstatement of the Due from NGAs account and understatement of the related Supplies Inventory accounts and Office Supplies Expense account.
- 17.15 On the other hand, the erroneous recording under JEV No. F-19-11-31 dated November 30, 2019 resulted in the overstatement of the Accountable Forms Inventory account, Motor Vehicles account and the corresponding Depreciation Expenses and Accumulated Depreciation account.
- 17.16 Meanwhile, the unreconciled variance amounting to P15.655 million between the accounting records of CAAP and the statement of account of PS-DBM and the lack of regular and periodic monitoring of the fund transfers cast doubt on the overall reliability and accuracy of the Authority's assertion of the affected accounts as of report date.

17.17 We recommended and Management agreed to:

- a. Direct the Supply Officer to follow-up with the PS-DBM for the submission of the necessary delivery receipt and for the Chief Accountant to make the necessary adjusting entry to record the receipt of the motor vehicles along with the related accumulated depreciation;**
- b. Coordinate with the PS-DBM to reconcile the variance amounting to P11.548 million, and make the necessary adjusting entry, if warranted; and**
- c. Establish a clear and documented process on the regular and periodic verification, analysis, and validation of fund transfers.**

18. The non-maintenance of subsidiary ledgers and the lack of monitoring and periodic reconciliation of audit disallowances, suspensions and charges cast doubt on the accuracy and reliability of the balance of the Receivables-Disallowances/Charges account.

18.1 Section 7.2 of COA Circular No. 2009-006 states that Agency Accountant shall ensure, among others, the following:

“XXX...

- c. the audit suspensions, disallowances and charges including their settlements, are properly monitored and reconciled with the SASDC issued by the Auditor in accordance with these Rules;*
- d. the disallowances and charges that have become final and executory as contained in the Notice of Finality of Decision (NFD) are recorded in the books of accounts, and settlements thereof under the NSSDC are dropped therefrom; and*
- e. the subsidiary ledgers/records are maintained and properly updated for each official/employee determined to be liable/responsible for the amount disallowed/charged/suspended.”*

18.2 Review of transactions disclosed that upon resignation or retirement of an official/employee, the Authority, as a precaution, deducts disallowances, suspensions or charges from the terminal leave benefits of the official/employee even when the amount disallowed/suspended/charged are not yet final and executory. The said practice is a good initiative to ensure recovery of the disallowed/charged amount in case the Notice of Disallowance/Charge becomes final and executory. Inquiry, however,

revealed that the accountant does not maintain or keep track of the remaining balances of these disallowances/suspensions/charges.

- 18.3 Per inquiry with the Accounting Division, non-maintenance of subsidiary ledgers/records for each official/employee determined to be liable/responsible for the amount disallowed/charged/suspended was due to lack of manpower that will be responsible for the preparation/keeping of the above-mentioned records and subsequent monitoring of the accounts.
- 18.4 The maintenance of subsidiary ledgers (SLs) for the Receivables-Disallowances/Charges account, as well as the monitoring of all disallowances, suspensions and charges, both final and executory, or under appeal, and the subsequent reconciliation of the same with the SASDC of this office, form part of the internal control of the Authority. The SLs help ensure the accuracy and reliability of the balance of the Receivables-Disallowances/Charges account and monitoring of all audit disallowances, suspensions and charges. Also, they facilitate verification of the amount due from persons directly liable for the disallowances or charges at any given time. Absence of proper monitoring procedure may lead to inaccurate balance of the account, thus creating doubt as to the accuracy and reliability of the financial statements.
- 18.5 We reiterated our prior year's recommendations that Management:**
- a. Instruct the Chief Accountant to maintain and update subsidiary ledgers/records for each official/employee determined to be liable/responsible for the amount disallowed/charged/suspended as provided under COA Circular No. 2009-006;**
 - b. Keep track and monitor all audit disallowances, suspensions and charges, both final and executory, or under appeal, and reconcile the same with the SASDC; and**
 - c. Require the Internal Audit Service to review and appraise CAAP's existing controls and procedures/processes relative to the creation of subsidiary ledgers, monitoring and periodic reconciliation of audit disallowances, suspensions and charges and provide necessary advice for the improvement of its systems.**
- 18.6 The Accounting Division commented that they will ensure that the Subsidiary Ledgers for audit disallowances, suspensions and charges will be maintained and regularly updated.

19. The existence of dormant/long-outstanding receivable accounts amounting to P27.901 million and the non-provision for allowance for impairment were not in accordance with Paragraph 15 of PAS 1 and Paragraph 5.2 of PFRS 9, which cast doubt on the reliability, accuracy and existence of these balances.

- 19.1 Paragraph 15 of PAS 1 on Presentation of Financial Statements states that – *“Financial Statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the framework. The application of PFRS, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation.”*
- 19.2 Meanwhile, PFRS 9 on financial instruments requires that after initial recognition, receivables shall be measured at amortized cost. Amortized cost is the amount at which the receivable is measured at initial recognition minus the principal payments, plus or minus the cumulative amortization and adjustment for any loss allowance. At each reporting date, an entity shall measure the loss allowance of the receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition otherwise at an amount equal to 12-month expected credit losses.
- 19.3 Moreover, Annex C of COA Circular No. 2020-002 dated January 28, 2020 provides that *“Allowance for Impairment are recognized upon set-up of provision for losses which may arise from non-collection of receivables.”*
- 19.4 Audit revealed that the Authority has dormant/long-outstanding receivable accounts recorded in its books, to wit:

Table 19. Schedule of Dormant/long-outstanding Receivables accounts	
Accounts	Amount
Due from National Government Agencies (NGAs) – 10303010	
National Housing Authority	P 3,768,878
National Printing Office	285,720
Philippine Postal Corporation	80,000
Land Transportation Office	2,362
No details	18,834,118
Due from Local Government Units (LGUs) – 10303030	
Provincial Government of Misamis Oriental	4,930,170
Total	P 27,901,248

- 19.5 The balances under the Due from NGAs account have been recorded in the books and, except for the balance of the National Housing Authority (NHA) amounting to P3.769 million, have been non-moving since 2008. Meanwhile, the balance with the NHA has substantially decreased last 2017 through reconciliation of records by the Accounting Division. With regard to the balance amounting to P18.834 million, inquiry disclosed that they can no longer locate any relevant documents and have no sufficient details, even as basic as the name of the agency concerned, since these were accounts of the then Air Transportation Office (ATO).
- 19.6 The balance recorded under the Due from LGUs account amounting to P4.930 million pertains to the unliquidated portions of fund transfers to the Provincial Government of Misamis Oriental between CY 2006 to CY 2009. Similarly, the balance substantially decreased last CY 2017 due to reconciliation efforts of the Accounting Division.
- 19.7 We noted that no allowance for impairment was provided for these balances. Considering the lapse of time that these balances remained dormant/outstanding in the books, it is imperative for the Accountant to provide allowance for impairment to arrive at the proper valuation of the amortized cost of the account.
- 19.8 Also, the Authority needs to actively pursue the liquidation or the refund of these balances. The non-liquidation not only poses a possibility of loss and deprives the Authority of funds that can be used to further accomplish its mandate, but also casts doubt on the accuracy of Management's assertion on the financial valuation of its receivable accounts.
- 19.9 We recommended and Management agreed to instruct the Chief Accountant to:**
- a. Exhaust all means to locate pertinent records relevant to these receivables and coordinate with the concerned agencies/LGUs to pursue the liquidation or refund of these fund transfers; and**
 - b. Formulate and implement a policy on the provision of allowance for impairment for Other Receivables account to ensure that the account is fairly presented in the financial statements.**
- 20. Cash advances granted to Special Disbursing Officers (SDOs) as well as to officers and employees for official travel amounting to P0.680 million and P2.897 million, respectively, remained unliquidated as of December 31, 2019 resulting in the understatement of expenses and overstatement of assets and Retained Earnings account and casts doubt on whether the purpose of the cash advances has been served.**

- 20.1 Section 89 of Presidential Decree (PD) No. 1445 provides that *“a cash advance shall be reported on as soon as the purpose for which it was given has been served. No additional cash advance 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.”*
- 20.2 COA Circular No. 97-002 dated February 10, 1997 further provides that all cash advances shall be fully liquidated at the end of each year and that the accountable officer shall liquidate his cash advance for official travel within sixty (60) days after return to the Philippines in the case of foreign travel or within thirty (30) days after return to his permanent official station in the case of local travel.
- 20.3 Examination of cash advances recorded under Advances to SDO and Advances to Officers and Employees accounts as of December 31, 2019 revealed an unliquidated balance of P0.680 million and P2.897 million, respectively, which are already past due their liquidation, aged as follows:

Advances to SDO

Table 20. Aging of long outstanding Advances to SDO

Office	No. of CAs	Unliquidated Amount	No. of days Past Due			
			Less than 30 days	31-90 days	91-365 days	Over 1 year
Head Office	8	680,138	234,537	50,000	373,508	22,093
Percentage over total Unliquidated CAs			34.48%	7.35%	54.92%	3.25%

Advances to Officers and Employees

Table 21. Aging of long outstanding Advances to Officers and Employees

HO/Area Centers	Overdue Cash Advance	No. of days Past Due		
		1-90 days	91-365 days	Over 1 year
Head Office	2,789,486	216,931	1,802,524	770,031
Area Center XII	107,276	0	0	107,276
Total	2,896,762	216,931	1,802,524	877,307
Percentage over total Unliquidated CAs		7.49%	62.23%	30.28%

- 20.4 We noted that the accumulation of unliquidated cash advances beyond their prescribe date of liquidation can be attributed to the following reasons:

a. Additional cash advances were granted to SDOs despite non-liquidation of previous cash advances

- 20.5 Section 89 of Presidential Decree (PD) No. 1445 and Section 4.1.2 of COA Circular No. 97-002 dated February 10, 1997 provide 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.”

- 20.6 Further, Sections 123 and 124 of the same PD require the Head of the Agency to install, implement and monitor a sound system of internal control. Internal control as defined, is the plan of organization and all the coordinate methods and measures adopted within an organization or agency to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies.
- 20.7 Verification disclosed that the SDOs were continuously granted additional cash advances even though the previous cash advances were not yet settled thereby resulting in the accumulation of their unliquidated cash advances.
- 20.8 Records show that one accountable officer (AO) has three outstanding cash advances as of year-end, totaling P336,360 while another AO has a total of six outstanding cash advances totaling P343,778 as of December 31, 2019, two of which have remained outstanding for more than a year.
- 20.9 The length of time within which the accountable officers are unable to settle/liquidate their cash advances may result in possible loss or misuse of funds. Likewise, there may be the possibility of losing/misplacing/interchanging the documents supporting each cash advance due to prolonged settlement.
- 20.10 Considering that these cash advances granted pertain to activities with specific purpose and time-bound, it is mandatory for the accountable officer to submit the liquidation documents as soon as the purpose for which the cash advance is granted has been completed.

b. The assigned Special Disbursing Officer does not personally discharge his/her functions in the disbursement of funds

- 20.11 Section 4.1.2 and 4.1.4 of the same Circular provides that *“only duly appointed or designated disbursing officers may perform disbursing functions. It also states that transfer of cash advance from one Accountable Officer (AO) to another shall not be allowed.”*
- 20.12 It was noted that there were instances where the AOs do not personally perform disbursing functions but transfer the fund to personnel who are directly in charge of the activity. However, these personnel are not properly bonded contrary to Section 7.1 of the Circular which provides that each accountable officer with a total cash accountability of P2,000 or more shall be bonded.

- 20.13 Inquiry disclosed that one of the reasons for the delay in the liquidation of the cash advance is the non-submission of valid and complete documents of the personnel to whom the fund was given.

c. *Inadequate internal controls in the verification and recording of liquidation of cash advances in the books of accounts*

- 20.14 Sections 5.2 and 5.3 of COA Circular No. 97-002 provide the responsibilities of the accountable officers and the accountant in liquidating cash advances. It states that *“accountable officers, after submitting the necessary liquidation vouchers and supporting documents to the Accountant, shall be deemed to have complied with the requirement of proper accounting for the cash advance. It further disclosed that within ten (10) days after receipt of the report and supporting documents from the accountable officer, the Accountant shall verify the report, record it in the books and submit the same with all the vouchers/payrolls and supporting documents to the COA Auditor. The cash advance shall be considered liquidated upon the recording thereof by the Accountant in the books of accounts”*.
- 20.15 Currently, the Accounting Division employs a two-level validation when accounting for the liquidation reports of cash advances. Once an accountable officer submits his liquidation report, the Accounting Division conducts an initial validation of the completeness and propriety of the transaction. Thereafter, final verification takes place to review the validation conducted by the initial reviewer. If there are any corrections and/or additional documents necessary, the Accounting Division personnel either routes the liquidation report back to the accountable officer or he/she will sometimes communicate verbally to the SDOs who shall be required to submit the same to the Accountant. In this case, the initial liquidation report submitted will not be returned to the SDO for correction but will remain unacted under the custody of the Accountant until the requested additional documents are submitted.
- 20.16 We also noted that the accountable officers were not required to refund any unused portion of the cash advance to the Cashier until such time that the Accountant was able to complete its validation process.
- 20.17 Further, the Accounting Division will only record the liquidation of a particular cash advance after the completion of their validation process of the entire cash advance and the accountable officer refunds any excess amount from the cash advance.
- 20.18 The process does not present an effective and efficient internal control system nor does it adhere with the provisions of the aforementioned Circular.
- 20.19 Examination of the account disclosed that the entire process up to the recording of liquidation of cash advances exceeds the required 10 days.

While we understand that the fault does not solely lie on the Accounting Division, considering the incomplete submission of supporting documents by Accountable Officers, we emphasize the need for the Division to prioritize the verification and validation of liquidation reports and meet the timeline set by the Circular. Interview with the concerned personnel in the Accounting Division revealed that the validation process was given less priority in favor of other workload handled by the concerned personnel.

- 20.20 Further examination showed that in some instances, the liquidation reports of the AOs remained in the Accounting Division and are not returned to the concerned AOs whenever there are corrections or required additional documents. Also, the Accounting Division does not require the SDOs to immediately refund the unexpended portion of their advances, hence, may expose them to risk of possible loss or misappropriation of the fund.
- 20.21 It was noted that the delay of the refund ranged from 35 to 120 days from the date of submission of their liquidation reports.
- 20.22 Overall, the above conditions reflect laxity in the monitoring and enforcement of regulations on the grant, utilization and liquidation of cash advances. Delays in the submission of liquidation reports signify an inadequate internal control system to prevent possible loss and/or misappropriation.
- 20.23 Moreover, Section 2 of CSC Memorandum Circular No. 23 s. 2019 provides the legal presumption against non-liquidation of cash advances and clearly, 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 has put such missing funds or property to personal use”*.
- 20.24 Section 5 of the same CSC Circular likewise provides the administrative liability and the corresponding penalty for failure of the accountable officer to liquidate cash advances within the prescribed period. That Accountable Officers, who will 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.
- 20.25 The failure to fully liquidate cash advances in accordance with the prescribed laws, rules and regulations resulted in the understatement of expenses and overstatement of assets and Retained Earnings account. Further, the non-liquidation of cash advances also cast doubts whether the purpose of the cash advances has been served.

20.26 We recommended that Management:

- a. Send final written reminders/demand letters duly signed by the agency head, to erring accountable officers to immediately liquidate their outstanding cash advances by submitting valid and complete liquidation reports pursuant to Section 89 of PD No. 1445;**
- b. Delete the names of erring accountable officers who will fail to liquidate their cash advances despite the issuance of a written reminder/demand letter from subsequent payrolls until such time as their respective cash advances are fully liquidated. The Chief Accountant shall initiate the filing of administrative cases, as warranted, in accordance with the aforementioned CSC Memorandum Circular No. 23 s. 2019;**
- c. Direct the Chief Accountant and the concerned officials to strictly abide by the COA Circular No. 97-002 and refrain from processing and approving additional cash advances to accountable officers with unliquidated cash advances; and**
- d. Direct the Administrative and Finance Service to revise the existing process to include/consider a formal and documented process on the grant and liquidation of cash advances in consonance with existing laws, rules and regulations.**

20.27 The Accounting Division committed that no additional cash advances will be granted to accountable officers with unliquidated cash advances.

20.28 Further, close coordination among Accounting Division, Enforcement and Legal Service (ELS) and Internal Audit Service (IAS) will be made to come up with a template of written reminder/demand letter to be sent to officers and employees with unliquidated cash advances for travel.

21. Discrepancies between the General Ledger (GL) balance as compared with the Subsidiary Ledger (SL) balance of the Advances to SDO and Advances to Officers and Employees accounts of CAAP – Head Office, amounting to P0.645 million and P1.985 million, respectively, cast doubt on the accuracy and reliability of the account balances.

21.1 The General Ledger (GL) is the book of final entry containing the totals of special journals (journals designed to record transactions which are repetitive in nature) and individual entries that are directly posted in the account. On the other hand, the Subsidiary Ledger (SL) contains 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.

21.2 Section 114 of Presidential Decree (PD) No. 1445 provides that:

“(1) The government accounting system shall be on a double entry basis with a general ledger in which all financial transactions are recorded.

(2) Subsidiary records shall be kept where necessary.”

21.3 Analysis of Advances to SDO and Advances to Officers and Employees accounts disclosed a discrepancy between the GL and SL balances amounting to P0.645 million and P1.985 million, respectively. Details are shown below:

Table 22. Discrepancy between GL and SL of Advances to SDO and Officers and Employees

	Advances to SDO	Advances to Officers and Employees
Balance per GL	1,324,795	5,236,221
Balance per SL	680,138	7,221,532
Difference (GL-SL)	644,657	1,985,311

21.4 We noted that one of the causes of the discrepancy is the non-recognition of refunds of the unexpended portion of cash advances from July to September 2019, thus resulting in the overstatement of the account.

21.5 Moreover, the failure of the Authority to maintain proper and accurate records casts doubt on the reliability and accuracy of the balance of the account.

21.6 We recommended and Management agreed to instruct the Chief Accountant to verify the difference noted, reconcile the same and make the necessary adjusting entry in order to provide reliable and accurate financial records.

22. The amount of P1.752 million remained unremitted as of December 31, 2019 to the Bureau of the Treasury (BTr), thus, depriving the Office of the Transportation Security of the much needed funds for the Anti-Hijacking and Anti-Terrorism activities.

22.1 Executive Order No. 30 provides for the increase of the Anti-Hijacking and Anti-Terrorism component (NACAHT share-ASF) of the terminal fees collected pursuant to Letter of Instruction No. 414-A and Executive Order No. 69. Said share from the terminal fees shall be remitted to BTr for the account of Office for Transportation Security (OTS) upon collection from the airline companies (ArC).

22.2 Verification of the Due to NGAs account showed that it includes collections from the airline companies representing NACAHT share which should be

deposited to BTr for the account of OTS. For CY 2019, total collections from various airline companies for the said purpose amounted to P211.186 million while total remittances to BTr amounted to P198.147 million, thus, leaving a balance of P13.039 million as of December 31, 2019.

22.3 Further verification revealed that of the balance of P13.039 million, P11.287 million was remitted to BTr on January 2, 2020. The remaining amount of P1.752 million was not remitted/deposited to BTr as of year-end.

22.4 Considering that this fund is due to the national government for use in aviation security against anti-hijacking and anti-terrorism activities, hence, all collections from airline companies representing the NACAHT share from terminal fees should be remitted to the BTr.

22.5 We recommended and Management agreed to direct the Chief Accountant to immediately remit the amount of P1.752 million to the Bureau of the Treasury (BTr).

23. The undocumented/unsupported transactions of the then Air Transportation Office (ATO) amounting to P59.140 million have been long outstanding casting doubt on whether the specific purposes of the fund transfers were attained.

23.1 Further verification disclosed that the amount of P59.141 million have been outstanding in the books for more than ten years, broken down as follows:

Table 23. Details of Long Outstanding ATO accounts

Particulars	Amount
ATO account balances transferred to CAAP	P 51,399,606
Funds received from DOTC for asphalt paving of runway at Kalibo Airport	5,000,000
Funds from DOTC for the salaries of employees assigned at Cotabato Airport under ARMM	2,741,011
TOTAL	P 59,140,617

23.2 Inquiry from the accounting division revealed that they can no longer locate the documents pertaining to the balances transferred from the then ATO.

23.3 Considering the prolonged period that these accounts have been outstanding in the books of the Authority, we viewed them to be already of doubtful validity. Leaving them unresolved may result in doubtful not only outstanding payables but also the corresponding assets and/or expenses accounts.

23.4 We recommended and Management agreed to direct the Chief Accountant to coordinate with the DOTr's Accounting Division to identify the details of the funds transferred (purpose and name of project) and seek the assistance of the Aerodrome Development and

Management Service (ADMS) to determine the existence/status of the projects. Thereafter, prepare the necessary adjusting entries.

- 24. Area Center II Management was not able to collect outstanding receivables for more than one year amounting to P1.281 million from the concessionaires/lessees. Moreover, the agency also failed to implement the collection policy on concession privilege fees as indicated in Section 3 Part IX and Sections 2 & 3 of Part XIII of D.O. 98-1178 re: Revised Schedule of Fees and Charges Alternate International Airports and National Airports.**

24.1 Section 3 of Part IX of D.O. 98-1178 specifically provides that:

Sec. 3 "Manner of Payment – Concession Privilege Fees shall be paid on a monthly basis payable at the beginning of each calendar month, and subject to the provisions of Secs. 2 & 3, Part XIII."

24.2 Further, Sections 2 and 3 of Part XIII of the same D.O. provide that:

Sec. 2 "Guarantee – To guarantee prompt payment of fees and charges covered by contracts with concessionaires, a deposit either in the form of a bank guarantee, manager's check or cash shall be made with the Air Transportation Office, the amount of which shall be maintained during the duration of the lease concession and in case of default shall automatically be applied to the back accounts."

Sec. 3 "Effect of Non-payment – Failure on the part of any person, firm or corporation to pay any fee, charge or rental due and payable after written demand by the Assistant Secretary, shall be considered sufficient ground to deny such person, firm or corporation of the further use of the airport or any of its facilities, utilities and services and shall be a basis for cancellation of their contract. Further, that should the concessionaire's cash deposit mentioned in Sec. 2 of this part be not sufficient to cover the outstanding obligations of such concessionaire, the Assistant Secretary may close the concessionaire's property within the leased area or premises until payment is fully satisfied. This shall not prejudice the Assistant Secretary from taking such action and/or proceedings as may be deemed proper and necessary. Delinquent account due to government shall earn interest at the rate of one percent (1%) compounded monthly from receipt of the letter demand by the tenant."

24.3 Review and analysis of the statement of accounts of the concessionaires/lessees revealed the following:

- a. Outstanding receivables for more than one year from concessionaires/lessees amounting to P1.281 million remained uncollected, the breakdown of which is as follows:

Table 24. Details of Receivables from Concessionaires

Particulars		Amount Due
Number of Concessionaires/Lessees with Inactive Status	33	P 349,012
Number of Concessionaires/Lessees with Active Status	6	932,306
Total	39	P 1,281,318

- a.1. Concessionaires/Lessees with inactive status are those individuals, firms or corporation who already stopped their business/operation in CY 2019. Receivables with these concessionaires/lessees should have been deducted in the guarantee as required in Section 2 Part XIII of the D.O. and any balance remaining after the guarantee has been applied should be demanded by the agency.
 - a.2. Concessionaires/Lessees with active status are those individuals, firms or corporation who are still continuing their business/operation in CY 2019. Payment of long outstanding receivables from these concessionaires/lessees should have been demanded by CAAP since they are still operating their business in the premises of the agency. The agency should take the necessary actions and impose penalties as stated in Section 3 Part XIII of the D.O. in cases of any refusal by the concessionaires/lessees to settle their balances.
 - b. It was noted that concessionaires/lessees do not abide with Section 2 of Part IX of the D.O. All the concessionaires/lessees do not pay on a monthly basis. Some were paying after a quarter, or semi-annual. With this condition, the agency was deprived to have immediate funds to be used in their operation. Moreover, it appeared that concessionaires/lessees were taking advantage in the use of the leased land or facilities of the agency by paying a minimal amount of rent and paying on the terms they want.
- 24.4 The provisions of D.O. 98-1178 were intended to protect the interest of the government in dealing with concessionaires/lessees and non-compliance with these provisions would mean a loss on the part of the CAAP.

24.5 We recommended that management:

- a. Send demand letters to the concessionaires/lessees with outstanding balances;**
- b. Exhaust all possible means to collect the receivables from the concessionaires/lessees; and**
- c. Strictly implement the provision of D.O. 98-1178.**

24.6 Management commented that the following actions were undertaken to address the matter:

- a. Instructed the Acting Concession in Charge to submit updated list and balances of Concessionaires in the Airport.
- b. Issued demand letters to delinquent Concessionaires of Tuguegarao Airport last January 30, 2020.
- c. Revised the schedule of personnel to do multi-tasking and focus on the collection and updates on concessions.
- d. Follow up from the Business Development Section and Enforcement Legal Section, Central Office, for the final demand letters to delinquent concessionaires, and the possible cause of eviction. Delay on the follow-up is due to non-existence of policy formulated for delinquent concessionaires and illegal settlers.
- e. Follow up request of additional permanent personnel as Concession-In-Charge to focus on the renewal/completion of documents for the contracts, billings and collections and other sources of income of the Agency.

25. Absence of approved Contract of Lease of concessionaires resulted in uncollected income for CY 2019 in the amount of P2.4 million.

- 25.1 One of the sources of income of CAAP-Area Center III is derived from the lease of properties and facilities, including, but not limited to, land and buildings. The CAAP concessionaires are mostly flying schools because the land area also provides better strategic location for these schools and hotels.
- 25.2 The free access of concessionaires on the use of facilities is covered under a Lease Contract Agreement between the CAAP (Lessor) and the Lessee. Accordingly, the rental rates and terms of payments, the inclusive period of the contract, and other terms and conditions are all stipulated in the Lease Contract.

- 25.3 As provided for under COA Circular No. 2019-005 dated August 7, 2019, all Lease Contract Agreements entered into by and between the Lessor and Lessee were submitted to the Technical Service Office (TSO) of COA Regional Office No. III for evaluation/review as to the reasonableness of the rental rates.
- 25.4 COA Circular No. 2019-005 states that:
- “Accordingly, all government agencies which have an existing contract involving lease of government building and/or lands with private entities/individuals are required to submit to the TSO, STSS, a certified true copy of contracts, within 15 days from publication/posting of this Circular or upon the execution of the contract. The contracts shall be submitted through the respective Audit Team Leader, for agencies in the National Capital Region (NCR), **or to the respective Regional TSO for agencies outside NCR.**” (Emphasis ours)*
- 25.5 As reference tool, we requested management to furnish us with copies of the Lease Contract Agreement for CY 2019 for legal review. However, our request was not accommodated by management citing, among others, the following reasons:
- a) copies of the Lease Contract Agreement for CY 2019 are still pending approval at the CAAP –Head Office; and
 - b) the management has not yet received the results of evaluation from the TSO of COA Regional Office No. III as to reasonableness of rental rates.
- 25.6 When interviewed, the personnel of the Billing Department of CAAP-Area Center III clarified that due to non-availability of valid contract at the Area Center III level, the management was precluded from sending billing statements to concessionaires.
- 25.7 For evaluation purposes, we conducted a computation of income to be generated by CAAP-Area Center III for CY 2019 using the approved rates for CY 2018 as the basis. Had the Lease Contract Agreement between the Lessor and Lessee been approved, the agency could have earned a total income of P2.416 million, as shown below:

Table 25. Estimated Income per Airport

Airport	No. of Lessee	Outstanding Balance	Monthly bill per 2018's contract	Forecasted Recb'l as of 12/31/2019	Total balance
(a)	(b)	(c)	(d)	(e=d*12)	(f=c+e)
Calapan	1	121,550	30,388	364,650	486,200
Iba	1	616,475	40,000	480,000	1,096,475
Marinduque	1	320,000	10,000	120,000	440,000
Pinamalayan	1	96,000	48,000	576,000	672,000
Plaridel	9	314,676	28,357	340,286	654,962

Airport	No. of Lessee	Outstanding Balance	Monthly bill per 2018's contract	Forecasted Recb'l as of 12/31/2019	Total balance
Romblon	1	57,394	2,706	32,477	89,871
San Jose	16	3,251,610	41,872	502,458	3,754,068
TOTAL	30	4,777,705	201,323	2,415,871	7,193,576

25.8 However, due to lack of approved Lease Contract, the agency was deprived of the early collection of income in the amount of P2.416 million which could have been used for other priority program/projects/activities of the government.

25.9 We recommended that Management:

- a. **Make a follow-up in securing copies of the Lease Contract Agreement from the CAAP-Head Office to be used as basis in enforcing the collection of receivables from concessionaires; and**
- b. **If the documents are obtained, cause the immediate issuance of billing statements to concessionaires for the 12-month outstanding lease payments and require them to settle their accounts within reasonable time.**

25.10 According to the Concession in charge, the Billing Department always make a follow up for the said contracts to the Business Development Department (BDD) of the Head Office. In addition, some personnel of the BDD team have already resigned from the service, thus causing undue delays in the review and approval of contracts.

26. The accuracy of the balance of the Guaranty/Security Deposits Payable account amounting to P2.097 million as of year-end could not be ascertained due to the failure of the AC V Accounting Section to provide the schedule/updated subsidiary records of lessees, thus, rendering the reported liabilities or payables of the agency as of December 31, 2019, unreliable.

26.1 Item No. 3.6 of the Contract of Lease for Concession refers to Payment of Advance Rental and Security Deposit and provides that upon approval of the contract, the LESSEE shall pay the LESSOR advance rental and security deposit as security for the performance of LESSEE's obligations under the contract. Both the Advance Rental and Security Deposits require two months rentals fees or a total of four months rental fees to be advanced by the lessee upon approval of the contract. The security deposit is to be refunded to the lessee after termination of the lease, unless subject to compensation, as provided under Item Nos. 1.9 and 1.10 of the Contract of Lease.

- 26.2 The CAAP signatory to the Contract of Lease is the Director General hence, all the Contracts of Lease are forwarded to CAAP Head Office. It took several months or sometimes almost a year before the approved Contracts are returned to the Area Center. The practice of the agency is to allow the lessees to occupy the leased premises even without the payment of the required security deposit and advance rental, due to the absence of the duly signed Contract by the Director General. The Billing Unit will just issue a billing statement to the lessee for the two months security deposit and two months advance rental upon receipt of the approved contract from the CAAP Head Office, and this usually happens after the lessees have occupied the premises for several months or sometimes for a year already.
- 26.3 Upon issuance of the billing statement, the Accounting Unit prepares a Journal Entry with debit to Accounts Receivable and credit to Guaranty/ Security Deposits Payable the amount for the security deposits and advance rentals due from the lessee. Upon collection of the security deposits and advance rentals from the lessee, the Accounts Receivable account was credited.
- 26.4 The Journal Entry made recognized already a payable or liability of the agency, which have not been incurred by the agency. The agency will incur only a liability for the security deposits and advance rentals when the same are actually collected from the lessee, and that is the time to make an entry to recognize the liability of the agency. Thus, the Accounting Unit could not provide the Audit Team the complete list of lessees with paid security deposits/advance rentals as of December 31, 2019 because they cannot determine easily which are actually collected or not among the recorded security deposits/advance rentals under the account Guaranty/Security Deposits Payable because of the practice of recording a liability which has not been incurred yet.
- 26.5 Likewise, the Billing Unit failed to record properly in the lessee's Subsidiary Ledger the collections for security deposits/advance rentals from the lessee, which should have specific details, such as the Date, Official Receipt Number, Amount and a description "security deposits/advance rentals" under the particulars of payment. Otherwise, they could have easily determined lessees with paid security deposits as of December 31, 2019 when the Audit Team requested to prepare the List of Lessees with paid Security Deposits based on the Subsidiary Ledgers of the lessees.
- 26.6 The Accounting Unit provided a Summary of Lessees with Paid Security Deposits with a total amount only of P0.665 million out of the reported balance of the account Guaranty/Security Deposits Payable as of December 31, 2019 amounting to P2.098 million. The remaining balance of P1.432 million cannot be verified whether it is actually collected or not due to the practice of recording a liability for security deposits/advance rentals which have not been collected.

- 26.7 Review of the Subsidiary Ledger of the account Guaranty/ Security Deposits Payable showed that only one refund of a security deposit was made, which was refunded in 2018 for a security deposit collected in 2011.
- 26.8 Also, there was no adjustment to the account as to the realized/earned portion of the advance rentals. Some of the recorded security deposits in the submitted List of Lessees with Paid Security Deposits pertain to those lessees that are no longer included in the list of active concessionaires as of December 31, 2019, thus, could be concluded that the security deposits were not refunded or offset to any unpaid rental of the lessee, if any, upon termination of lease, which is not in accordance with the provision of the Contract that the security deposit shall be refunded to the lessee upon termination of lease.
- 26.9 The failure to determine whether the total balance of the Guaranty/Security Deposits Payable as of December 31, 2019 is indeed security deposits/advance rentals which were collected, in view of the practice of recording to the account security deposits/advance rentals upon billing, render the reported balance as unreliable.

26.10 We recommended that Management:

- a. Require the Accounting Unit to ascertain the total security deposits/advance rentals collected out of the reported balance of the account Guaranty/Security Deposits Payable as of December 31, 2019 and to make appropriate adjustment to the account as discussed in paragraph 26.4. Any uncollected security deposits/advance rentals as of December 31, 2019 should be reversed;**
 - b. Record the security deposits/advance rentals only upon receipt of payment; and**
 - c. Determine the security deposits due for refund to lessees whose lease contracts have been terminated, and offset to any unpaid rental of the concerned lessee, if any, and refund security deposit to previous lessees with no obligations to the agency.**
- 26.11 The Management informed the Audit Team, in its written reply, that the Billing In-Charge is currently tracing back the collected security deposits from lessees and once finalized, adjusting entry will be made, and refund to lessees with terminated contracts.

27. The AC V Management did not impose the two per cent compounded monthly interests on delinquent accounts of Lessees, as provided in Item 3.12 of the Contract of Lease. Likewise, provisions for due date of payment of rentals seem to be conflicting, if not ambiguous, and may cause confusion in the interpretation of the due dates.

- 27.1 Under the Contract of Lease, the rental payments shall be due as follows:

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

Item 3.3 “When to Pay. The monthly payments due hereunder shall be paid by LESSEE to LESSOR at the office of LESSOR on or before the 15th day of the month in which the rent shall fall due. It is expressly agreed and understood that the payment of rental herein stipulated shall be made by LESSEE without delay.”

- 27.2 Further, Item 3.12 of the lease contract imposes interest on delinquent accounts, to wit:

Item 3.12. “Delinquent accounts due to the LESSEE shall earn an interest at the value of two percent (2%) compounded monthly from the date of default.”

- 27.3 Foremost, the phrase “due to the LESSEE” in the above-cited Item No. 3.12 must be rectified to “due from the LESSEE”, because the phrase “due to the LESSEE” signifies a liability of the LESSOR to the LESSEE, which is not the case and not the intention of the provision.

- 27.4 As read, Item Nos. 3.2 and 3.3 of the Contract of Lease cause confusion as to the due date for the payment of the rentals. Item 3.3 could be interpreted by a layman that the due date for the payment of rental is on or before the 15th day of the month to which the rental pertains. But Item No. 3.2 provides for accrual of the rental at the end of the month.

- 27.5 The Accountant In-Charge, told the Audit Team that the Accountant of the CAAP Head Office interpreted it that the due date to pay is on the 15th day of the month following the month in which the rent accrued. But the Audit Team interprets it that the due date is on the 15th day of the month to which the rental pertains, e.g., the rental for the month of January 2020 must be paid on or before the 15th day of January 2020. This conflict in interpretation must be addressed because this will have a bearing in the computation of interest to be charged from the late payments or arrears of lessees.

- 27.6 It was observed that there was no interest charged on delinquent accounts of lessees included in the Accounts Receivable account (supposedly Operating Lease Receivable account) reported as of December 31, 2019

with a total amount of P56.658 million. The amount includes receivables from the regular trade or business of CAAP Area Center and its Satellite Airports, such as unpaid bills for landing/ take-off, parking fees and air navigational charges of flights of various Air Carriers which used the airport facilities of CAAP Area Center V, which are appropriate charges to the account.

- 27.7 For Naga Airport, the Audit Team thereat noted, per letter of CAAP Area Center dated July 24, 2018 addressed to the Managing Director of Artishop Company Inc., that the company had total adjusted concession dues of P486,262 without interests computed. This pertains to unpaid concession dues from CY 2013 to April 22, 2016, when the lighted billboards of the company were taken down due to the rehabilitation of Naga Airport.
- 27.8 The failure to impose the interest is highly disadvantageous to the government/agency and deprives it of additional funds that it could utilize for its programs and projects. Management's tolerance to these bloating delinquent accounts created undue advantage to the delinquent lessees.

27.9 We recommended that Management:

- a. Revisit the provisions for the due dates for payment of rentals and amend or restate to a clearer provision to avoid multiple interpretations;**
- b. Strictly impose interest for the delinquent accounts; and**
- c. Monitor regularly the collection of rental fees and issue timely demand letters to prevent accumulation of delinquent accounts.**

- 27.10 The Management admitted that they failed to enforce the imposition of the two per cent compounded monthly interest on delinquent accounts of the lessees due to the ambiguity on the provisions of the contract and the delayed issuance of bill to the lessees. It was informed also that Paragraph 3.3 of the Contract of Lease has been revised and stated, as follows:

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

28. The Cash in Bank, Local Currency Current Account maintained at the Philippine Veteran's Bank and Land Bank of the Philippines amounting to P1.185 million by AC VI Management had been idle for more than five years thus depriving the government of the economic benefits that could have been derived from its use had the same been plowed back to finance other priority development projects.

28.1 Paragraph 15 of PAS 1 on the Presentation of Financial Statements states that – *“Financial Statements shall present fairly the financial position, financial performance and cash flow of the entity. Fair presentation requires the faithful representation of the effects of the transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the framework. The application of the PFRS, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation”.*

28.2 Section 58 of PD No. 1445 states that:

“Audit of assets. – the examination and audit of assets shall be performed with a view to ascertaining their existence, ownership, valuation and encumbrances as well as the propriety of items composing the respective asset account; determining their agreement with records; ascertaining if the assets were utilized economically, efficiently and effectively; and evaluating the adequacy of controls over the accounts.”

28.3 Verification and analysis of the agency's cash in bank accounts disclosed that Cash In-Bank, Local Currency Current Account (LCCA) of GPR Airport, Caticlan, Malay Aklan at LBP, Kalibo under Account No. 0452-1113-06 with a balance of P 1,015,448 as of December 31, 2012 has been unutilized since 2012 due to the transfer of transactions to its other account at LPB, Iloilo. The account has a balance of P 1,015,748 as of December 31, 2019 since minimal deposits were made in CYs 2013 and 2019 to avoid dormancy charges.

28.4 Further, Cash In Bank Account maintained at the Philippine Veteran's Bank under Account No. 0026-004096-001 in the amount of P169,607 per bank confirmation as of December 31, 2019 has been unutilized and remained idle for more than five years. The account balance P169,107 since December 2013 and the increase of P500 in the balance was due to deposits of P100 made per year in order that the account will not become dormant. The account represents funds/account of programs/projects that had long been abandoned or discontinued.

28.5 Had the funds been returned to CAAP Head Office upon termination of past projects and plowed back to finance other priority projects, more economic benefits could have been derived from its use rather than leaving the same idle in the bank.

- 28.6 We recommended that the Area Center cause the reversion of the idle cash thru the CAAP Head Office.
- 28.7 We further recommended that the Accountant disclose fully in the Notes to Financial Statements the Cash in Bank accounts that remained idle for years pursuant to Paragraph 50 of PAS 7 which requires disclosure of additional information that may be relevant to users in understanding the financial position and liquidity of an entity.
- 28.8 Management informed that the LBP Bank Account of GPR Airport (Caticlan) will be closed and cash will be returned to Central Office while coordination with the Philippine Veteran's Bank will be made for the closure of the account since the account was attached to the loans of a few CAAP personnel. As per MOA of ATO and the bank before, the account served as the collateral for the loan of ATO employees.

B. OTHER OBSERVATIONS

29. The Advances to Contractors account balance of P27.992 million includes dormant/outstanding advances totaling P1.767 million which remained unrecouped as of December 31, 2019 resulting in the loss of government funds.

- 29.1 Annex E, Sections 4.1 to 4.3 of the Revised Implementing Rules and Regulations of Republic Act No. 9184 provides the following:

4.1. *"The procuring entity shall, upon a written request of the contractor which shall be submitted as a contract document, make an advance payment to the contractor in an amount not exceeding fifteen percent (15%) of the total contract price, to be made in lump sum or, at the most, two installments according to a schedule specified in the Instructions to Bidders and other relevant Tender Documents."*

4.2. *"The advance payment shall be made only upon the submission to and acceptance by the procuring entity of an irrevocable standby letter of credit of equivalent value from a commercial bank, a bank guarantee or a surety bond callable upon demand, issued by a surety or insurance company duly licensed by the Insurance Commission and confirmed by the procuring entity."*

4.3. *"The advance payment shall be repaid by the contractor by deducting fifteen percent (15%) from his periodic progress payments a percentage equal to the percentage of the total contract price used for the advance payment."*

- 29.2 Analysis of the account disclosed that there were advance payments relating to ATO projects and terminated projects which remained unrecouped as of December 31, 2019. Details of these advance payments are shown below:

Table 26. Breakdown of Advance Payments

Project	Contractor	Balance as of Dec. 31, 2019	Payment	
			Check No.	Date
HEAD OFFICE				
Improvement of 1 st and 4 th floor CAAP main building and other main selected areas	AQA Global Construction Inc.	P 1,309,920	189513	September 2011
Repair of VFR room and other floor levels at Control Tower Building, NAIA (under ATO)	Bentidel Ent & Developer	218,467	1497705	July 2005
Repair/Improvement of NDB Station Phase 2 project at Rosario, Cavite (under ATO)	Bridgestone Construction Company	43,407	1521628	Dec 2007
System development of Auto AES (under ATO)	Mannasoft Technology Corporation	33,000	1455012	Jan 2002
SUB-TOTAL		P 1,604,794		
AREA CENTERS				
Provision of Feeder Lines from Generator Set to the Main Distribution Panel and Construction of Fuel Day Tank and Upgrading of Power Supply at Masbate Airport	EMRA Construction and Supply Services	P 88,824		
Expansion of Powerhouse at Virac Airport	Lourbel Construction and Supply	73,851		
SUB-TOTAL		162,675		
GRAND TOTAL		P 1,767,469		

- 29.3 In the case of the contract with AQA Global Construction Inc., it was informed that the Aerodome Development and Management Service (ADMS) sent a letter dated July 11, 2014 to the said contractor informing the latter that the project has a slippage of 38.23 per cent and requested to show cause why the contract should not be terminated. The concerned contractor requested then for a reconsideration on the matter of termination, however, it was denied by the Authority. The other advances made from 2002-2007 pertains to projects implemented by then Air Transportation Office (ATO) in various years and turned over the documents to CAAP.

- 29.4 The non-recoupment of the advance payments in CAAP-HO and AC V resulted in the loss of government funds totalling P1.767 million.
- 29.5 We recommended and Management agreed to instruct the Chief Accountant to send demand letters to the contractors to recover the unrecouped advances and immediately coordinate with the Enforcement and Legal Office to file appropriate charges, if warranted.**
- 30. The amount of P6.927 million representing the excess fund transferred to the PS-DBM was not requested for refund thereby depriving the Authority of additional funds it can use for its operational activities/projects.**
- 30.1 Section 4.2 of the Memorandum of Agreement between CAAP and PS-DBM states that –
- “Any excess in the funds to PS shall, in no case be applied for other purpose but may be used for a similar procurement upon submission of supplemental APR. The END-USER AGENCY also has the option to request for the refund of the amount.”*
- 30.2 Despite considerable delay in the procurement and delivery of the motor vehicles relative to the above-mentioned MOA, PS-DBM was able to finally deliver all the required vehicles on July 2019 (deliveries include the coaster in Observation No. 17). We gathered however, that the Authority did not request for the refund of the excess funds transferred to PS-DBM amounting to a minimum of P6.927 million as provided under Section 4.2 of the MOA. The request is necessary as the excess amount can be used for other operational activities/projects of the Authority.
- 30.3 We recommended and Management agreed to direct the Chief of Finance Department to make representation with the PS-DBM and request for the refund.**
- 31. The non-settlement and non-enforcement of audit disallowances and charges with corresponding Notices of Finality of Decisions and COA Orders of Execution as provided in COA Circular No. 2009-006 dated September 15, 2009 deprived the Authority of additional funds it can use for its operations/projects.**
- 31.1 Section 7.1 of COA Circular No. 2009-006 provides the responsibility of the agency head in the settlement of disallowances/charges. It states, among others, that –

7.1.1 *“The head of the agency, who is primarily responsible for all government funds and property pertaining to his agency, shall ensure that:*

- a. xxx;*
- b. the settlement of disallowances and charges is made within the prescribed period;*
- c. xxx”*

31.2 Meanwhile, Sections 17.1 and 22.1 of the same Circular state that *any person aggrieved by a disallowance or charge may within six (6) months from receipt of the notice, appeal in writing as prescribed in these Rules. A disallowance or charge not appealed within the period prescribed shall become final and executory.*

31.3 Further, Section 4 entitled Definition of Terms, defines the following:

Section 4.12 “COA Order of Execution (COE) – a written instruction to withhold payment of salary and other money due to persons liable, for settlement of their liability.”

Section 4.18 “Notice of Finality of Decision (NFD) – a written notification that a decision of the COA has become final and executory.”

31.4 As provided in the above-mentioned Circular, it is the responsibility of the head of the agency to ensure the settlement of audit disallowances and charges within the specified period.

31.5 Audit disallowances and charges, in the absence of any appeal and upon issuance of a Notice of Finality of Decision, shall become final and executory pursuant to the aforementioned provisions.

31.6 As per record, we noted that a total of eight (8) audit disallowances and two audit charges amounting to P5.086 million have remained unsettled by various persons liable as of December 31, 2019.

31.7 Out of the 10 NFDs, seven have already been issued the corresponding COEs. As provided under the same Circular, unsettled COEs shall be referred to the General Counsel for appropriate action including referral to the Office of the Solicitor General (OSG) and the Ombudsman.

31.8 We recommended and Management agreed to:

- a. Submit an explanation as to why the disallowances and charges with NFDs and COEs have remained outstanding as of December 31, 2019; and**
- b. Strictly adhere to the provisions of COA Circular No. 2009-006 thru prompt enforcement of COEs.**

32. The amount of cash advances granted to SDOs were excessive which exposes CAAP funds to possible loss or misappropriation.

32.1 Audit noted that out of the 50 cash advances granted to the SDOs in CAAP-HO for CY 2019, 41 cash advances totaling P3.880 million were duly liquidated within the same year. We gathered that out of the said amount, only P2.601 million or 67.05 per cent were expended and that the remaining balance totaling P1.279 million or 32.95 per cent, were unutilized and were refunded subsequently, albeit at a later date than the date of submission of the liquidation report. This shows that the amount of cash advances granted were excessive.

32.2 While the amounts of cash advances granted were based on program of work duly approved by the authorized official, in many instances, estimates were much larger than what was necessary as shown in the amount of refunds recorded in the books. The Authority needs to be more cautious when granting cash advances to avoid exposing CAAP to possible loss or misappropriation. Further, the excess funds could have been used for other projects much needed by CAAP.

32.3 We recommended and Management agreed to direct the officials authorized to approve cash advances to carefully review program of works to ensure that the estimates are reasonable and not excessive.

33. The interest charges for the late remittances of Domestic Passenger Service Charge (DPSC) by various Air Carriers amounting to P27.916 million remained uncollected as of December 31, 2019 depriving the government of the economic benefits that could have been derived from its use for its operations.

33.1 CAAP Memorandum Circular (MC) No. 022-17 dated September 01, 2017 provides the following provisions:

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

Section 6.2 – “The due date of remittance for the DPSC collections from the 1st to the 15th of the month shall be on or before the 15th day of the succeeding month. The DPSC collections from the 16th day to the end of the month shall be remitted on or before the end of the succeeding month.”

Section 6.3 – “In case of failure to remit DPSC in full amount to the CAAP within the specified time, the Air Carrier or its agent shall pay CAAP the balance of the unremitted amount plus interest equivalent to 18% per annum.”

- 33.2 Verification of the Report of Collections and Deposits vis-à-vis Official Receipts in the HO disclosed that there were delays in the remittances for CY 2019 but no interests were charged to the airlines concerned.
- 33.3 The detailed Breakdown of the uncollected interest for CY 2019 are shown below:

Table 27. Uncollected Interest per Airline

Month	Philippine Airlines	Cebu Pacific Air Inc.	Cyclone Airways	Cebgo, Inc.	Magnum Air (Skyjet Inc.)	Philippines Air Asia Inc.	Airswift Transport Inc.	Platinum Skyjet Aviation, Inc.	Total
2017-2018		690,102.68		99,165.55	2,009.64	3,014,221.37			3,805,499.24
2019	820,762.12		37,102.51		3,434.33	23,225,158.59	21,457.35	2,617.49	24,110,532.39
Total	820,762.12	690,102.68	37,102.51	99,165.55	5,443.97	26,239,379.96	21,457.35	2,617.49	27,916,031.63

- 33.4 Of the P27.916 million, 94 per cent or P26.239 million pertains to Philippine Air Asia, Inc. It is worth to mention that on February 26, 2020, Philippine Air Asia Inc. paid the amount of P7.821 million under OR No. 019698 dated February 26, 2020.
- 33.5 Further, it was noted that the amount of P2.579 million remained unbilled and unrecorded in the books, thus, understating the Accounts Receivable and Income accounts.
- 33.6 Likewise, verification disclosed that of the total interest charges for CY 2017 and 2018 amounting to P3.267 million, only P9,953 was collected in CY 2019.
- 33.7 We recommended and Management agreed to instruct the revenue section to send out Statement of Accounts (SOAs) and collect from concerned airline carriers the amount of P20.095 million, and to bill and record the amount of P2.579 million.**

- 34. The delay in the updating of its Certificate of Registration with the BIR and in the procurement of Value Added Tax (VAT)-registered Official Receipts (ORs) resulted in the payment of VAT amounting to P775.949 million for CY 2018 and for the first to third quarter of 2019 by the Authority based on its revenue although no VAT was imposed on the collected fees and charges.**
- 34.1 The National Internal Revenue Code defined VAT as a tax on consumption levied on the sale, barter, exchange or lease of goods or properties and services in the Philippines and on importation of goods into the Philippines. It is an indirect tax, which may be shifted or passed on to the buyer, transferee or lessee of goods, properties or services.
- 34.2 In line with the Tax Reform for Acceleration and Inclusion (TRAIN) Law, the Authority has updated its Certificate of Registration to the Bureau of Internal Revenue (BIR), to include, among others, the imposition and payment of Value-added Tax (VAT).
- 34.3 CAAP updated its Certificate of Registration (CoR) with the BIR on September 11, 2018. The CAAP, thereafter, applied for the Authority to Print (ATP) Official Receipts (ORs) and procured VAT-registered ORs for the use of the Head Office and Area Centers.
- 34.4 Audit revealed that although the Authority has updated its registration only on September 2018 and started using the VAT-registered ORs beginning October 2019, the Authority recognized and paid for the VAT from 2018 until third quarter of 2019 amounting to P524.524 million and P251.425 million, respectively or a total of P775.949 million.
- 34.5 Since the 12 per cent VAT was not added to the fees and charges collected for the said period, the VAT payable was estimated/computed by grossing up the total revenue recognized for the period by 112 per cent and multiplying it by 12 per cent. No input tax was deducted from 2018 VAT payable, while input tax totaling P92.506 million was deducted from the 2019 VAT recognized.
- 34.6 It is to be emphasized that VAT is an indirect tax that is shifted to the buyer/consumer. Payment of VAT even if it was not imposed/ added up in the fees/selling price charged by CAAP, does not only contradict the intention of the VAT Law but also deprived the Authority of the fund which could have been used to further improve its services.
- 34.7 It was also noted that there was a significant delay in the procurement of VAT-registered ORs. The Request for Quotation to APO Production Unit Inc. for the printing of VAT-registered ORs, along with other accountable forms, was only made on June 27, 2019, nine months after the approval of the updated CoR.

- 34.8 Had the Authority timely initiated the procurement of ORs, upon the approval of the updated CoR and the ATP, which is to be secured simultaneously with the CoR as provided under Section 3 of BIR Revenue Regulations No. 18-2012, the VAT could have been imposed on its sales in a much earlier time instead of charging it against the Authority's revenues.
- 34.9 We recommended that Management provide a legal basis and/or justifiable reason for the payment of VAT for 2018 until 3rd quarter of 2019 totaling P775.949 million despite its not being able to add the 12 per cent VAT to the fees and charges collected during the said period.**
- 34.10 Management commented that the Authority became subject to VAT and Income Tax upon the enactment of Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) Law. However, they were not able to immediately apply for the Authority to Print and BIR Registered Official Receipts (OR) since the design of the ORs needs to be coordinated first with the National Printing Office (NPO). Moreover, the new VAT OR is distinct with every airport and security features and special markings in the OR was incorporated by NPO, hence, the VAT ORs were only ready for use in October 2019. As per BIR, however, the Authority is liable to remit VAT effective January 2018, the effectivity date of the TRAIN Law.
- 35. The payments of VAT totaling P829.861 million were not supported with complete documentation and did not bear the approval of proper officials which is not in consonance with Section 4, PD No. 1445, casting doubt on the propriety and regularity of the transactions.**
- 35.1 Section 4 of the Presidential Decree No. 1445 provides that –
- “ xxx
5. *Disbursements or disposition of government funds or property shall invariably bear the approval of the proper officials.*
6. *Claims against government funds shall be supported with complete documentation. xxx”*
- 35.2 Moreover, CAAP's New Delegation of Authority Manual, as approved under CAAP Memorandum Circular No. 03-19 dated January 24, 2019, provides that all disbursements amounting to over P1 million shall have the recommending approval of the Chief Accountant, who shall certify the availability of fund/cash and the completeness of supporting documents and should be approved by the Director General, or the CFO, as the alternate.

- 35.3 Audit revealed that the payments for the VAT payable for 2018 and 2019 totaling P829.861 million were not duly supported with approved Budget Utilization Reports (BUR) and Disbursement Vouchers (DV), casting doubt on the propriety and regularity of the transactions.
- 35.4 Moreover, it was also noted that all tax remittances made through the Electronic Filing and Payment System of the BIR were also not supported by BUR and DV.
- 35.5 We recommended that Management show evidence that the transactions were duly authorized, otherwise, they will be considered unauthorized/irregular disbursements. Henceforth, exercise due diligence in ensuring that all disbursements are duly supported with the required supporting documents and bears the approval of the proper officials.**
- 35.6 Management commented that the approval of the CAAP Board was secured prior to payment of VAT. Remittance of VAT to BIR was not supported with complete documentation since it is their first time filing the return, nevertheless, the Management committed to submit the lacking documents and ensure the completeness of the same on subsequent remittances.
- 35.7 The Audit team recognized that the Authority has made its Board aware of the payments made to the BIR, however, it is not tantamount to an approval of the Disbursement Vouchers (DVs) and the Budget Utilization Requests. It should be noted that the Board is not a designated signatory of DVs and BURs. As such, we reiterate our recommendation that the Authority present proof of approval of these payments by authorized official.
- 36. The non-compliance to Sections 2, 10 and 48 of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184 on the hiring of 46 consultants as of December 31, 2019 did not ensure that the contracts entered into by the Authority are the most advantageous for the government. Moreover, the recording of the cost of services rendered by consultants and contract of service personnel is not in accordance with COA Circular No. 2020-002, thereby casting doubt on the reliability and accuracy of the financial statements.**
- 36.1 Sections 2, 10 and 48 of the 2016 RIRR of RA No. 9184 state that *“the procurement of goods, infrastructure projects and consulting services shall be competitive and transparent, and therefore shall undergo competitive bidding. It provides that whenever justified by the conditions provided by the Act, the procuring entity may, in order to promote economy and efficiency, resort to any of the alternative methods of procurement, subject to the recommendation of the Bids and Awards Committee (BAC) and subsequently, the approval of the Head of the Procuring Entity.”*

- 36.2 Further, consulting services was defined under Section 5 of the RIRR, as follows:

*“Services for infrastructure projects and other types of projects or activities of the GoP requiring adequate **external technical and professional expertise that are beyond the capability and/or capacity of the GoP** to undertake such as, but not limited to: (i) advisory and review services; (ii) pre-investment or feasibility studies; (iii) design; (iv) construction supervision; (v) management and related services; and (vi) other technical services or special studies.”* (Bold supplied)

- 36.3 Moreover, GPPB Policy Opinion 2012-11-21 provides when the procurement of consultancy services under RA No. 9184 shall be applicable in a particular transaction. It states that –

“If the desired service would require adequate external technical and professional capability and expertise that are beyond the existing capacity of the procuring entity, then the rules and regulations on the procurement of consulting services under RA No. 9184 and its IRR shall be applicable.

*Conversely, RA No. 9184 and its IRR will not apply in the hiring of individual personnel under Job Order or Contract of Service because the engagement does not require that level of expertise as primary consideration for its selection, but merely pertains to the engagement of **ordinary piece of work or intermittent job of short duration.**”* (Bold supplied)

- 36.4 Paragraph 15 of Philippine Accounting Standard (PAS) 1, on Presentation of Financial Statements provides that *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.*

- 36.5 Annex C of COA Circular No. 2020-002 provides the definition of accounts as provided under the Revised Chart of Accounts of Government Corporation. It defines Consultancy services as follows:

“This account is used to recognize the cost of services rendered by consultants contracted to perform particular outputs or services primarily advisory in nature and requiring highly specialized or technical expertise which cannot be provided by the regular staff of the entity.”

36.6 Per the letter of the OIC - HRMD dated November 29, 2019, the Authority has procured the services of 46 consultants, with remuneration ranging from P25,000 to P75,000. The hiring of these consultants was anchored on specific needs for expert technical advisory and support of the different offices/services/ departments/units of the Authority in various functions such as, but not limited to, the following:

- Corporate planning and strategy development
- Development of corporate financial management systems and procedures
- Implementation of corporate investment policies
- Human resource management and organizational development
- IT infrastructure development
- Implementation of a State Safety Program pursuant to ICAO aviation safety protocols
- Asset management and business development

36.7 Since the functions of the 46 consultants involve technical and professional expertise arguably not within the existing capacity of the Authority, the procurement process utilized to hire the consultants should either be competitive bidding, limited source bidding or any of the alternative methods of procurement as provided under Annex H of the RIRR of RA No. 9184. Aside from competitive bidding, the Authority should have availed of the following methods of procurement when procuring consultancy services:

- a) **Limited Source Bidding (Section 49 of the RIRR)** – mode of procurement which involves direct invitation to bid by the Procuring Entity from the list of pre-selected suppliers or consultants with known experience and proven capability on the requirements of the particular contract.

In this kind of procurement, the BAC shall directly invite all the suppliers or consultants appearing in the pre-selected list. All other procedures for competitive bidding shall be undertaken, except for the advertisement of Invitation to Bid/Request for Expression of Interest under Section 21.2.1 of this IRR.

- b) **Negotiated Procurement (Section 53 or Annex H of the RIRR)** in any of the following cases:

- Two failed biddings
- Emergency cases
- Take-over of contracts
- Adjacent or contiguous
- Agency-to-agency
- Scientific, scholarly or artistic work, exclusive technology and media services

- **Highly Technical Consultants (Section 53.7)** – mode of procurement employed if the individual consultants hired to do work is (i) highly technical or proprietary; or (ii) primarily confidential or policy determining, where trust and confidence are the primary consideration for the hiring of the consultant: Provided, however, That the term of the individual consultants shall, at the most, be on a six month basis, renewable at the option of the appointing Head of the Procuring Entity, but in no case shall exceed the term of the latter.

Section V.D.7 of Annex H of the above-cited RIRR provides for the specific guidelines in this kind of alternative procurement, to wit –

- The End-User Unit shall justify to the BAC the engagement of the individual in accordance with the conditions set forth in aforementioned Section.
- The BAC shall undertake the negotiation with the individual consultant based on the Terms of Reference prepared by the end-user.
- The BAC shall recommend to the HOPE the award of contract to the individual consultant. Award of contract shall be made in accordance with Section IV.L of Annex H of the same RIRR.

- 36.8 Further, we gathered that the Authority does not have a formal policy or written guidelines in the hiring of consultants. In the above-cited letter of the OIC - HRMD, it was also stated that in order to address the need for consultants, the concerned service/department/unit usually submits its request with justification to the Office of the Director General (ODG), which will conduct the screening or evaluation of the prospective consultant. Once approved, the request together with the duly signed consultancy contract are then forwarded to the HRMD for documentation and processing.
- 36.9 The lack of a definite and clear-cut guidelines in the hiring process exposes the Authority to possible legal complaints and/or uncompleted or unsatisfactory outputs due to the possibility of hiring unqualified consultants, which in return may impede the Authority to deliver an effective and efficient service to the public.
- 36.10 Moreover, this practice lacks the essential check-and-balance since the evaluation of the need to hire, analysis of the qualifications needed for the job, the search for applicants, the screening and evaluation of the qualifications of potential consultants vis-à-vis the terms of reference, the selection of suitable consultants and the approval of contract most

advantageous to the Government, are all lodged in one office. Had the hiring of these consultants been processed in accordance with the aforementioned RA, the end-user will be the one to define the terms of reference, the BAC will be the one tasked to search for applicants, screen and evaluate their qualifications as compared with the terms of reference set by the end-user, and lastly, the Director General will be the one tasked to approved the contract, subject to the recommendation of the BAC.

- 36.11 Further, the non-compliance with RA No. 9184 and consequently, the lack of terms of reference, precluded the Audit Team in verifying whether the hired consultants met the minimum requirement that should have been set in the terms of reference. It also cast doubt on whether the contracts entered into by the Authority are the most advantageous to the government. Moreover, it deprived the Authority of a more competitive and transparent mode of procurement.
- 36.12 In addition, audit noted that as of December 2019, only the cost of services of 17 out of the 46 consultants amounting to P9.423 million were recorded in the Consultancy Services account as required by the aforementioned guidelines. We gathered that some of the cost of services of these consultants were recorded in the Other Professional Services account instead. Likewise, we noted that payment of Job Order/Contract of Service personnel amounting to P1.253 million were recorded in the Consultancy Services account.
- 36.13 There is a need for the Accounting Division to reconcile its records with the official list of consultants submitted by the HRMD to avoid misclassification when recording payments. In the case at hand, the misclassification resulted in the understatement of the Consultancy Services account and the overstatement of the Other Professional Services account at an undetermined amount.

36.14 We recommended that Management:

- a. Strictly adhere to the provisions of RA No. 9184 and other pertinent rules and regulations in the procurement of consulting services;**
- b. Conduct a thorough review and evaluation of all existing consultancy contracts to determine whether there is a need to continue hiring these consultants;**
- c. Create a formal hiring process and/or written guidelines in the hiring of consultants and direct the Internal Audit Service to review the process/guidelines to ensure the newly established process is in accordance with the provisions of RA No. 9184 and its RIRR;**

- d. Instruct the chief accountant to conduct reconciliation of the accounting records with the official records from the HRMD for the misclassified transactions; and
- e. Adhere to the provisions of COA Circular No. 2020-002 by properly recording the transactions to the specific accounts based on its nature.

Management Comment:

- 36.15 Management commented that Section 23 of the Authority's charter, Republic Act No. 9497, granted it with corporate powers, one of which is to: *"(c) to enter into, make, perform, and carry out contracts of every class, kind and description, which are necessary or incidental to the realization of its purposes, with any person, domestic or foreign private firm, or corporation, local or national government office., agency and with international institutions or foreign government."*
- 36.16 Further, they reasoned that the term "consultant" as used colloquially in the Authority is a misnomer and should not be understood to strictly mean the engagement of technical experts and professionals that do not exist in the Authority. These "consultants" should be properly referred to as Contract of Service personnel falling under CSC-COA-DBM JC No. 1, s. 2017.
- 36.17 They added that Article 1713 of the Civil Code helps lay down the definition for a contract of service, to wit:
- By the contract for a piece of work the contractor binds himself to execute a piece of work for the employer, in consideration of a certain price or compensation. **The contractor may either employ only his labor or skill, or also furnish the material.** (emphasis supplied)*
- 36.18 Thus, a Contract of Service personnel applies his/her skills, regardless of the expertise applied, to produce work outputs or pieces of work, regardless of the complexity or difficulty of work, with the corresponding compensation under a contract of service.
- 36.19 Management further disclosed that while it is true that many of these personnel are experts, the functions assigned to these personnel only constitute "ordinary piece of work" and does not constitute "technical and professional capability and expertise that are beyond the existing capacity" of the Authority. This is evident in the official documents in the Authority and as provided in their respective Contracts of Service agreements.
- 36.20 Given such, management remarked that the pertinent provisions of GPPB Policy Opinion 2012-11-21 applies which states that *"RA No. 9184 and its*

IRR does not apply in the hiring of individual personnel under Job Order or CoS because the engagement... merely pertains to the engagement of ordinary piece of work or intermittent job of short duration.”

Auditor's Rejoinder:

- 36.21 The audit team acknowledges that the Authority has the corporate power to contract any person that is necessary or incidental to the realization of its purposes. However, it should, at all times, be in consonance with relevant laws, rules and regulations.
- 36.22 While it is true that Article 1713 of the Civil Code provides the definition of Contract of Service, it is to be emphasized that this definition is further classified into three categories under CSC-COA-DBM Joint Circular No. 1, s. 2017, as amended, to wit: (1) Institutional Contract of Service; (2) Individual Contract of Service; and (3) Job Order, with the intention of defining the mode of procurement and the rates to be used in hiring these personnel.
- 36.23 The term “consultants”, regardless of how it is used by the Authority, has a clear definition under RA No. 9184. Consultant is a person qualified by appropriate education, training and relevant experience to render services requiring adequate external technical and professional expertise that are beyond the capability and/or capacity of the procuring entity.
- 36.24 We disagree with the management's contention that these personnel were hired as contract of service as the functions assigned to these personnel only constitute “ordinary piece of work” and does not constitute “technical and professional capability and expertise that are beyond the existing capacity” of the Authority.
- 36.25 We invite the attention of Management on the following provisions in the contract for Financial and Treasury Management consultant, with a monthly remuneration of P75,000:

*“The Authority acknowledged the need to engage the services of a **highly competent, experienced, and qualified financial accounting and fund management professional** for this urgent financial management organizational and systems development requirement inasmuch as there is **currently an acute shortage of highly qualified and experienced experts** in the CAAP staffing complement with requisite technical competencies and experience in financial management and computerization.*

The consultant has the following functions:

- **Conduct review of the work activity processes and systems** being implemented by CAAP CO Finance Department and **provide relevant advisory services.**
- **Technical advisory** in the implementation of a computerized financial accounting and control system in CAAP.
- **Technical assistance in the strategic planning activities** for inclusion in the CAAP Performance Scorecard.” (Bold Supplied)

- 36.26 It is clear in the above-cited provisions that the consultant was hired for his/her qualifications, competencies and expertise in the field of financial and treasury management which is currently unavailable in the Authority. Meanwhile, her listed functions show that it is primarily advisory in nature. Both of which are coherent to the letter of the OIC - HRMD dated November 29, 2019, stating that the hiring of these consultants was anchored on specific needs for expert technical advisory and support of the different offices/services/departments/units of the Authority.
- 36.27 Moreover, Management's assertion that these consultants were hired for ordinary piece of work raised questions as to why some of these consultants did not underwent the usual hiring process for job orders / contract of services of the Authority. As mentioned in the aforementioned letter of the OIC – HRMD, the office in need of consultants submits its request to the ODG, which then conducts the screening or evaluation of the prospective applicant. The approved requests together with the duly signed contracts are then forwarded to the HRMD for documentation and processing. On the other hand, interview with an HRMD personnel disclosed that, typically, applicants for JO/COS positions are first screened and evaluated by the HRMD and the office in need of such personnel. The ODG only approves and signs the necessary contract after the HRMD had already accomplished its screening and evaluation process.
- 36.28 However, if the Authority stand firm that these personnel were indeed employed as contract of service personnel performing ordinary piece of work currently available in the Authority, the audit team would like to request for supporting documents identifying the comparable existing plantilla position in the Authority in which the functions and duties of each of these consultants are anchored upon.
- 36.29 Until such is provided and duly validated, we maintain our position that the procurement process utilized to hire the consultants should either be competitive bidding, limited source bidding or any of the alternative methods of procurement as provided under Annex H of the RIRR of RA No. 9184.

37. CAAP-HO, ACs I, V, VI, IX, XI and XII did not comply with certain provisions of the Revised IRR of RA No. 9184, thereby defeating the purpose of transparency, competitiveness and other control measures in the procurement of infrastructure, goods and services.

37.1 The governing principles on government procurement as contained in Republic Act (RA) No. 9184 and its Revised Implementing Rules and Regulations (RIRR), require among others the principle of transparency, competitiveness, economy, and streamlined procurement process. These principles are translated into provisions and requirements to attain efficient and effective method of procurement.

37.2 The following infrastructure projects and contracts for procurement of goods and services with a total amount of P236.614 million were found to be non-compliant to the provisions of RA No. 9184 and its RIRR:

Table 28. Results of Evaluation of Procurement Contracts

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
HO	10 Infrastructure Projects	Section VIII. Bill of Quantities (BOQ) of the Philippine Bidding Documents (Procurement of Infrastructure Projects), Fifth Edition dated August 2016 lists down the objectives of the BOQ. It states that BOQ should provide sufficient information on the quantities of works to be performed to enable bids to be prepared efficiently and accurately. Meanwhile, Section 32.2.1(a) of the 2016 RIRR of RA No. 9184 provides that- “xxx unless the instruction to bidders specifically allow partial bids, bids not addressing or providing all of the required items in the Bidding Documents including, where applicable, bill of quantities, shall be considered non-responsive and, thus automatically disqualified. xxx”	The Authority did not declare as non-responsive bids those with discrepancies between the quantities of some item of work as reflected in the bid proposal vis-à-vis the quantities in the Bill of Quantities.	P138,031,907
		Section 38.1 of the 2016 RIRR of RA No. 9184 provides that the procurement process from the opening of bids up to the award of contract shall not exceed three (3) months, or a shorter period to be determined by the procuring entity concerned.	The Authority exceeded the three (3) months maximum period for the procurement of infrastructure projects	
AC I	Two (2) 5,000 gallons overhead water tank	Section 17.6 of RA No. 9184 provides that:	Two (2) 5,000 gallons overhead water tank at Vigan and Lingayen Airports had	2,611,619

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
		"No bidding and award of contract for infrastructure projects shall be made unless the detailed engineering investigations, surveys, and designs, for the projects have been sufficiently carried out and duly approved in accordance with the standards and specifications prescribed by the Head of the Procuring Entity concerned or his duly authorized representative, xxx."	been completed in 2017 but remained idle up to this date for the reason that the Planning and Design Section, CAAP Central Office failed to include the provisions of water pipes and upgrading of power supply in the program of work.	
AC V	13 Infrastructure Projects	Annex E of the 2016 Revised Implementing Rules and Regulations (IRR) of R.A. No. 9184 provides the Contract Implementation Guidelines for the Procurement of Infrastructure Projects. Section 10 thereof provides the guidelines for the extension of contract time that could be granted to contractors by the Procuring Entities.	Several extensions of contract time were granted to contractors and deprived the government of the supposed liquidated damages with aggregate amount of P1,779,577 that should have been deducted from the payments to contractors. Likewise, the contract time extensions granted were not supported with the written consent of bondsmen that would ensure that the validity of the performance security is correspondingly extended.	19,996,384
		Section 8.1, 8.4 and 8.5 of Annex E also provides the guidelines on liquidated damages. It provides that contractors who refuses or fails to satisfactorily complete the works within the specified contract time shall pay the procuring entity for liquidated damages, equal to at least one tenth (1/10) of one (1) per cent of the cost of the unperformed portion of the works for every day of delay.	Moreover, two (2) of the infrastructure projects with unsupported contract time extension were awarded to a single contractor in CY 2018 and remained un-rescinded despite of incurred lapses of 225 and 294 days from the original target date of completion of the project to the reported date of actual completion.	
AC V	20 Infrastructure Projects	Section 34.3 of the RIRR provides that the post-qualification shall verify, validate, and ascertain all statements made and documents submitted by the bidder with the Lowest Calculated Bid/Highest Rated Bid, using non-discretionary criteria, as stated in the Bidding Documents. This includes verification of availability and commitment, and/or inspection and testing for the required capacities and operating	The Bids and Awards Committee recommended the award of twenty (20) contracts with an aggregate amount of P16,343,581.99 which were subsequently awarded by the Head of the Agency to a lone contractor which lacks the capability to implement simultaneous and/or overlapping contract time schedules. This resulted in requests for extensions	16,343,582

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
		conditions of equipment units to be owned/leased/under purchase by the bidder for use in the contract under bidding, as well as checking the performance of the bidder in its ongoing government and private contracts, or substandard quality of work as per contract plans and specifications, or unsatisfactory performance of the contractor's obligations as per contract terms and conditions, at the time of inspection. If the BAC verifies any of these deficiencies to be due to the contractor's fault or negligence, the agency shall disqualify the contractor from the award, for the procurement of infrastructure projects.	which were subsequently granted by the Area Manager. The issue can be attributed to the poor post qualification conducted by the BAC-Technical Working Group. The total unbilled liquidated damages amounted to P506,518.40.	
AC VI	X-ray Cargo Buildings of Kalibo International Airport and Roxas Airport	Section 7.1 of RA No. 9184 provides that: "All procurement shall be within the approved budget of the procuring entity and should be meticulously and judiciously planned by the procuring entity."	The X-ray Cargo buildings of Kalibo International Airport and Roxas Airport, completed in prior years, amounting to P1,870,689.22 and P2,626,135.88, respectively, were unutilized and not properly maintained thereby depriving the intended beneficiaries of the desired value added services of the airports.	4,496,825
AC IX	73 out of 108 contracts or 68 per cent are considered in default.	Section 68 of the 2016 Revised IRR of RA No. 9184 provides that: "All contracts executed in accordance with the Act and this IRR shall contain a provision on liquidated damages which shall be payable by the contractor in case of breach thereof. For the procurement of Goods, Infrastructure Projects and Consulting Services, the amount of the liquidated damages shall be at least equal to one-tenth of one per cent (0.001) of the cost of the unperformed portion for every day of delay. Once the cumulative amount of liquidated damages reaches ten per cent (10%) of the amount of the contract, the Procuring Entity may rescind or terminate the contract, without prejudice to other courses of action and remedies available under the circumstances." Item No. III.A.2 Annex I of the same IRR provides that the the Procuring Entity shall terminate a contract for	Violation of the stipulations in the contract entered into by CAAP Area Center 9 and non-compliance with various provisions of RA No. 9184 resulted in liquidated damages of P0.806 million and abandoned projects totaling P5.891 million. Aside from being disadvantageous to the government, delays in contract implementation and/or project completion deprived the intended beneficiaries and/or end-users of the immediate use of these Programs, Projects and Activities (PPAs).	36,171,894

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
		default when negative slippage reaches ten per cent (10%) or more or when the contractor abandons the contract works, refuses or fails to comply with valid instruction of the Procuring Entity despite a written notice.		
AC IX	Procured goods were not included in the Approved APP – Supplies and Materials	<p>Sections 7.1 and 7.2 of the 2016 Revised Implementing Rules and Regulations (IRR) of RA No. 9184 provides that all procurement shall be within the approved budget of the Procuring Entity and that only those considered crucial to the efficient discharge of governmental functions shall be included in the Annual Procurement Plan (APP). It further states that No procurement shall be undertaken unless it is in accordance with the approved APP, including approved changes thereto.</p> <p>Meanwhile, Section 12.2 of the same IRR provides that the BAC shall be responsible in preparing a Procurement Monitoring Report (PMR) in the form which shall be approved and submitted by the HoPE to the GPPB within fourteen (14) calendar days after the end of each semester. The PMR shall likewise be posted in accordance with E.O. 662, s. 2007, as amended.</p>	Procured goods amounting to P0.777 million were not included in the approved Annual Procurement Plan (APP) of CY 2019. Also, the Procurement Monitoring Reports (PMRs) were not submitted to the Government Procurement Policy Board (GPPB).	777,169
AC XII	Five (5) contracts for procurement of goods and five (5) infrastructure projects	<p>Items 3.1 and 3.2, Annex D of the Revised IRR of RA No. 9184 provide that when a supplier fails to satisfactorily deliver goods under contract within the specified delivery schedule, the supplier shall be liable for damages for the delay and shall pay the procuring entity liquidated damages, not by way of penalty, an amount equal to one-tenth (1/10) of one per cent (1%) of the cost of the delayed goods scheduled for delivery for every day of delay until such goods are finally delivered and accepted by the procuring entity concerned.</p> <p>Item 8.1 and 8.3 of Annex E of the same IRR provides that when a contractor refuses or fails to satisfactorily complete the work within the specified contract time, the contractor shall pay the procuring entity for liquidated damages, and not by way of penalty, an amount, as</p>	Liquidated damages aggregating P85,214.75 were not imposed to suppliers/ contractors who failed to complete the delivery of goods and infrastructure projects within the specified delivery / completion period thus, depriving the Authority the agreed payment of damages by the supplier/contractor for the undelivered goods or unperformed portion of the work.	4,999,226

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
		provide in the conditions of the contract, equal to at least one tenth (1/10) of one (1) per cent of the cost of the unperformed portion of the works for every day of delay.		
AC XII	12 contracts for procurement of common-use supplies and equipment	<p>Section 52.1 of the Revised IRR of RA No. 9184 provides:</p> <p>“Shopping is a method of procurement of goods whereby the Procuring Entity simply requests for the submission of price quotations for readily available off-the-shelf goods or ordinary / regular equipment to be procured directly from suppliers of known qualification. This method of procurement shall be employed in any of the following:</p> <p>a. xxx</p> <p>b. Procurement of ordinary or regular office supplies and equipment not available in the Procurement Service involving an amount not exceeding the thresholds prescribed in Annex “H” of this IRR.”</p>	Common-use supplies and equipment totaling P2,260,886.95 were not procured from the Procurement Service of Department of Budget and Management and various discrepancies were noted in the procurement of the same thus, depriving the Authority of the discounts and benefits of the PS facilities.	2,260,887
AC XII	17 contracts for procurement of goods and services	<p>Section 54.1, Rule XVI provides that –</p> <p>“Splitting of Government Contracts is not allowed. Splitting of Government Contracts means the division or breaking up of GoP contracts into smaller quantities and amounts, or dividing contract implementation into artificial phases or subcontracts for the purpose of evading or circumventing the requirements of law and this IRR, particularly the necessity of competitive bidding and the requirements for the alternative methods of procurement.”</p>	The Authority did not consolidate the requisitions of the different Satellite Airports under Area Center XII on the purchase of various goods and equipment with the same specifications as it resorted to Small Value Procurement instead of public bidding thus, defeating the purpose of transparency, competitiveness and economy in the procurement process.	4,271,229
AC XII	Purchase of furniture and fixtures for the Administration Office at Butuan Airport	<p>Item 8 (b) (ii), Annex H of the revised IRR of RA No. 9184 provides:</p> <p>“8. <i>Small Value Procurement</i></p> <p>a. <i>Xxx</i></p> <p>b. <i>Procedure</i></p> <p>i. xxx</p>	The Authority purchased furniture and fixtures for the Administration Office at Butuan Airport amounting to P500,000.00 to a supplier who did not submit the necessary Request For Quotation (RFQ), thus, violated the Procurement Law and resulted in the	500,000

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
		<i>ii. The BAC shall prepare and send the RFQs / RFPs to at least three (3) suppliers, contractors or consultants of known qualifications. This, notwithstanding, those who responded through any of the required postings shall be allowed to participate. Xxx"</i>	incurrence of an irregular/illegal expenditure.	
AC XII	Nine (9) contracts for procurement of various goods and equipment	Section 36 of the Revised IRR of RA No. 9184 provides: "In all instances, the Procuring Entity shall ensure that the ABC reflects the most advantageous prevailing price for the government."	The Approved Budget for the Contract (ABC) for the purchase of various goods and equipment totaling P2.500 Million did not reflect the most advantageous prevailing price for the government, as it showed different prices for same item specifications offered by the same supplier, thus casting doubt on the determination of the ABC by the Procuring Entity and the reliability of supplier's quotation of prices. Moreover, the Authority could have saved the amount of P472,774.00 if ABC were based on the least cost.	2,509,884
AC XII	Representation expenses	Item 8 (b) (ii), Annex H of the revised IRR of RA No. 9184 provides: <i>"8. Small Value Procurement</i> <i>c. Xxx</i> <i>d. Procedure</i> <i>iii. xxx</i> <i>iv. The BAC shall prepare and send the RFQs / RFPs to at least three (3) suppliers, contractors or consultants of known qualifications. This, notwithstanding, those who responded through any of the required postings shall be allowed to participate. Xxx"</i>	Representation Expenses totaling P351,017.50 pertaining to the cost of meals and snacks served during various meetings, seminars and other similar activities were not substantiated with proper and complete documentation thereby, casting doubts on the propriety, reliability and validity of the transactions.	351,018
AC XII	Improvement of Passenger Terminal Building at Siargao Airport	Section 31.1 of the IRR of RA No. 9184 provides that – "The ABC shall be the upper limit or ceiling for acceptable bid prices. If a bid price as evaluated and calculated in accordance with this IRR is higher	The contract cost of the project on the Improvement of Passenger Terminal Building, Siargao Airport amounting to P3,292,361.25 was higher than the Approved Budget for the Contract (ABC) due to the	3,292,361

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
		that the ABC, the bidder submitting the same shall be automatically disqualified. There shall be no lower limit or floor on the amount of the award."	inclusion of Project Management Cost in the ABC indicated in the Invitation to Bid, thus, resulted in the excess of contract cost amounting to P120,136.68.	
TOTAL				P 236,613,985

37.3 We recommended that Management:

- a. **Strictly comply with the guidelines set under RIRR of RA No. 9184; and**
- b. **Direct the Accounting Division, in coordination with Aerodrome Development and Management Service (ADMS), to re-compute the liquidated damages (LD) that should have been imposed to the contractors who failed to complete the delivery of goods and infrastructure projects within the specified completion period and deduct the same from any money due to such contractors or oblige them to pay in case their claim is less than the amount of LD.**

Management Comment:

- 37.4 CAAP-HO did not provide the quantity for listed materials, labor and equipment under the Detailed Estimates (Detailed Unit Price Analysis) form in order for prospective bidders to have an actual estimate of the needed materials, labor and equipment for the completion of the Contract that was bid out. This will eliminate the possibility of any Variation Orders during the project implementation should CAAP pre-determine a deficient quantity of materials, labor and equipment which were included in the published and issued bidding documents. Furthermore, as per Instruction to Bidders Section 6.2 (c) in the published and issued Bidding Documents of the project and Omnibus Sworn Statement Item 8 (c) that will be submitted in the Technical Documents of the bidders, it was emphasized that one responsibilities of the bidders is to have an estimate of the facilities available and needed for the contract that were bid out.
- 37.5 In addition, the COA Technical Specialists brought to ADMS personnel's attention that unlike horizontal infrastructure projects (construction/expansion/repair of runways, taxiways, aprons and other aircraft movement areas), bidding documents that were published and issued for vertical infrastructure projects (construction/ expansion/ rehabilitation/ improvement/ repair of buildings) do not contain quantities or derivative volume, area, linear meter, or number of bays in the Bill of Quantities, Bid

Proposal and Detailed Estimates (Detailed Unit Price Analysis) form for specific scopes of work of the projects. The vertical projects only specify lump sum or lots for Civil/ Architectural/Electrical/Mechanical/Plumbing Works. Hence, this deficiency should be addressed in order for prospective bidders to have an accurate estimate on the scopes of work as well as for the BAC-TWG to have a proper comparison of submitted bids.

- 37.6 Technically, the COA Technical Audit Specialists require these derivatives to be included in the bidding documents particularly in the Bill of Quantities, Bid Proposals and Detailed Estimates (Detailed Unit Price Analysis) form for every scope of work in all vertical infrastructure projects of the CAAP but not the individualized quantity of materials, labor, workforce, and equipment in the Detailed Estimates (Detailed Unit Price Analysis) form as they are amenable that bidders should have an actual estimate of the facilities available and needed for the contract that were bid out.
- 37.7 The CAAP, through the ADMS, have since corrected this issue in their Programs of Work and Bidding Documents for CY 2019. CAAP assured the COA of the compliance with this deficiency by including the required derivatives for every scope of work particularly in the Bill of Quantities, Bid Proposal and Detailed Estimates (Detailed Unit Price Analysis) form of all vertical infrastructure projects.
- 37.8 CAAP also acknowledged that the procurement process of the project indeed exceeded the allowed three (3) months period from opening of bids up to award of the contract under the Revised Implementing Rules and Regulations of RA No. 9184.
- 37.9 Relative thereto, CAAP created the following measures to fast track the procurement of infrastructure projects:
 - a. The BAC-TWG to adhere to the twelve (12) day period to conduct, process and submit the post-qualification report;
 - b. The approval of the corresponding BAC resolution recommending for the award of the project by members right after the presentation of the post qualification report;
 - c. The Procurement Division to immediately prepare the contract agreement and subsequently forward the same to the Enforcement and Legal Service (ELS) or Contract Review;
 - d. The ELS to immediately conduct contract review of the prepared contract agreement;
 - e. The immediate signing of the contract agreement by the concerned signatories.

- 37.10 A memorandum from the Deputy Director General for Administration was issued in connection with items be as it was noted that these contributed to the delays in the procurement process.

Auditor's Rejoinder:

- 37.11 While it is proper not to provide quantities for the listed materials, labor, and equipment under the Detailed Estimates (Detailed Unit Price Analysis) form in the published Bidding Documents, the Bill of Quantities, however, should contain sufficient information on the quantities of work to be performed to enable bids to be prepared efficiently and accurately by the prospective bidders. As much as possible, BOQ should not be expressed in lots or lump sum quantities whether it is a horizontal or a vertical infrastructure project. During technical review, the COA-Technical Audit Specialists (COA-TAS) are constrained to go into details of comparing quantities in the Detailed Estimates prepared by CAAP against the Detailed Estimates prepared by the Contractor since the scope of works stated in their BOQs are expressed in lots or lump sum quantities. We agree that it is the responsibility of the bidders to have actual estimates of the facilities available and needed for the contract as stated in Section 6.2(c) of the Instruction to Bidders but this does not guarantee that Variation Orders are eliminated during project implementation since these are still estimates based on the same published plans.

38. Fifty-seven (57) Contracts of Lease for Concessionaires of CAAP AC II were not signed by the Director General and were not duly notarized, thus, the contracts were not valid and binding; thereby, exposing the agency to the risk of not being indemnified of damages in case of breach by the contracting parties contrary to Section 2 of Presidential Decree (P.D.) No. 1445 otherwise known as the Government Auditing Code of the Philippines.

- 38.1 Section 2 of Presidential Decree No. 1445 states that:

Section 2. "Declaration of Policy. It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring 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." (Underscoring Supplied)

- 38.2 Article 1305 of the Civil Code of the Philippines defines contract as a meeting of minds between two persons whereby one binds himself, with respect to the other, to give something or to render some service.

- 38.3 In a lease agreement, it guarantees the lessee the right to the use of the property and it serves as the authority of the lessor to assess and collect the regular payments from the lessee for a specific period. It also protects both parties and the leased property should any problem arise.
- 38.4 COA Circular No. 2019-005 dated August 07, 2019 requires the submission to the Technical Services Office (TSO) of all contracts involving government buildings and/or lands leased to private entities/individuals. In consonance with the Circular, we have requested the submission of the CY 2019 contracts of lease of concessionaires of the CAAP AC II and the management submitted the following:

Table 29. Details of Contracts per Airport

Airport	Number of Contracts of Lease Submitted	Total Floor/ Area Subject to Lease (sqm.)	Total Monthly Contract Price
Tuguegarao	28	2,538	P 10,440
Cauayan	11	549	21,140
Basco	18	272	15,964
Total	57	3,359	P 47,544

- 38.5 Review of the contracts revealed that all the 57 renewal contracts of the concessionaires for CY 2019 were not signed by the lessor as represented by the Director General of the CAAP under Section 4 (b), Chapter 2 of Republic Act No. 9497 otherwise known as the Civil Aviation Authority Act of 2008; also contracts were not duly notarized; thus, making the contracts invalid and not binding between the CAAP and the concessionaires. The lack of contracts between the CAAP and the concessionaires exposes the agency to the risk of not being indemnified of the damages in case of breach by the contracting party. The contract of lease would be the shield/protection of the agency in case of breach by the lessee/concessionaires which the management failed to secure; hence the resources of the agency were not managed in accordance with the above-cited section of P.D. No. 1445.
- 38.6 We recommended that the Director General of CAAP review and approve all Contracts of Lease with the Concessionaires of Area Center II and have them notarized within reasonable time.**
- 38.7 Management noted the recommendations for compliance.

39. CAAP AC VIII paid a total of P20.468 million for security services for CY 2019 for an extended contract which was already beyond the allowable contract extension of one (1) year contrary to Section 10, Rule IV of the Revised IIR of RA No. 9184 and Government Policy Board (GPPB) Resolution No. 23-007 dated September 28, 2007, thus casting doubt on the propriety and the legality of the transactions pertaining to security services.

39.1 Section 10, Rule IV provides that: All procurement shall be done through competitive bidding, except as provided in Rule XVI of the IRR.

39.2 GPPB Resolution No. 23-2007 dated September 28, 2007 otherwise known as the Revised Guidelines on the Extension of Contracts of General Support Services provides the general condition and procedural requirements governing the extension of ongoing contracts of general support services. For the extension of the effectivity of an ongoing contract about to expire should be under the following conditions:

Section 4.1 – “No contract extension shall exceed one (1) year.”

Section 4.2 - “No original contract subject of the extension was awarded in accordance with the provisions of Republic Act 9184(R.A. 9184) and its Implementing Rules and Regulations Part A (IRR-A)”

Section 4.3 – “The procuring entity concerned has substantially undertaken the procurement activities required prior to award of the new contract under R.A. 9184 and its IRR-A.”

Section 4.4 – “The aforesaid contract extension is undertaken due to circumstances beyond control and procuring entity concerned cannot award a new contract within a month after the expiration of the term of the original contract.”

Section 4.5 – “The contemplated extension is merely an emergency measure to maintain status quo in the operations of the Procuring Entity and to avoid interruption of service.”

Section 4.6 – “The current service provider has not violated any of the provisions of the original contract.”

Section 4.7 – “The terms and conditions of the original contract shall not be changed or modified, except when changes or modifications will redound to the advantage of the government at no additional cost to the Procuring Entity.”

39.3 CAAP Authority Order No. 299-18 dated December 14, 2018 was issued by CAAP Head Office creating the Bids and Awards Committees for Infrastructure Projects and for Good and Services, and it provides that the

committee named BAC-BRAVO shall undertake procurement but not limited to consultancy services, manpower services, security and janitorial services, subscription to utilities, and such other procurement activities that are not considered for infrastructure procurement.

- 39.4 The agency is maintaining eight (8) airports in Region 8 located in Tacloban City, Catarman, Calbayog, Ormoc, Catbalogan, Guiuan, Maasin and Borongan which needs the services of 73 security guards to safeguard and protect its facilities/installations, properties, equipment and other assets and to regulate the security and safety of personnel and guest.
- 39.5 In the review of the disbursements for security services paid to ALAS Security Services, Inc. totaling P20.468 million for CY 2019, the following observations were noted:
- a) The public bidding for security services was conducted in February 29, 2016 by CAAP Head Office, as per latest contract available. The Audit Team was not provided with the related copies of the bid documents. The contract was awarded to ALAS Security Services, Inc. covering the period March 16, 2016 to March 15, 2017 only.
 - b) There were no supporting documents showing that it was publicly bidden in CY 2017, 2018 and 2019.
 - c) Renewal of contracts were made for the period March 16, 2017 to March 15, 2018 and every three months thereafter, after its termination on March 15, 2018.
- 39.6 Interview with the CAAP Area Manager disclosed that public bidding of security services is conducted in CAAP Head Office. A letter dated May 30, 2018 was sent informing the status of contract with ALAS Security Services which already expired last March 30, 2018 and requested for the renewal of the contract pending rebidding of the security services. However, as of to date, there was no update on the status of the bidding.
- 39.7 The absence of continuous extension beyond the legally allowed one year and the absence of a valid security services contract as of to date, cast doubt on the propriety and the legality of the transactions pertaining to security services.
- 39.8 We recommended that AC VIII Management follow-up with CAAP Head Office all the bid documents/supporting documents/justifications for the payment of Security Services for Calendar Years 2018 and 2019. Henceforth, the Accountant should see to it that supporting documents be completed first, before payment will be made. Moreover, strictly follow the provisions of RA No. 9184.**

39.9 In cognizance of the fact that there has been failed biddings for the procurement of Private Security Services for Area Canter VIII, the Area Manager will request for a copy of the Minutes of the Procurement Activity on Private Security Services from the BAC Secretariat from CAAP Central Officer.

40. Of the amount of P1.294 million billed to concessionaires, only P0.582 million or 45 per cent was collected by AC VIII Management during the year, thus, depriving the Authority of funds that could be used for its operations, programs and/or projects.

40.1 Article 1356 of Republic Act (RA) No. 386 provides that:

“Contracts shall be obligatory, in whatever form they may have been entered into, provided all the essential requirements for the validity are present xxx.”

40.2 Section 2 of COA Circular No. 88-282A dated March 3, 1988 on Uniform Standard/Guidelines to Determine the Reasonableness of the Terms and Rental Rates of Lease Contracts for Private or Government provides that:

“That contract of lease shall be embodied in a public instrument and shall integrate all the covenants, understanding and agreements of the lessor and the lessee xxx.”

40.3 Moreover, Department Order No. 98-1178, dated February 25, 1999 provides for the revised schedule of fees and charges for alternate international and national airports as follows:

PART IX: Concession Privilege Fees:

“Section 3. Manner of Payment - Concession privilege fees shall be paid on a monthly basis payable at the beginning of each month and subject to the provisions of Sec. 2 & 3, Part XIII hereof.”

Part XIII: Payment:

Section 1. Manner of Payment

- a. *“Except for rental charges which shall be payable at the beginning of each month, the fees and charges prescribed herein shall be due and payable at the close of each calendar month unless provided otherwise in the subsequent section.”*

Section 2. “Guarantee – “o guarantee prompt payment of fees and charges covered by contractors with concessionaires a deposit either

in the form of a bank guarantee, manager's check or cash shall be made with the Air transportation office, the amount of which shall be maintained during the duration of the lease concession and in case of default shall automatically applied to the back accounts."

Section 3. "Effects of Non-payment – Failure on the part of any person, firm or corporation to pay any fee, charge or rental due and payable after written demand by the Assistant Secretary, shall be considered sufficient ground to deny such person, firm or corporation of the further use of the airport or any of its facilities, utilities and services and shall be a basis for cancellation of their contract. Further, that should concessionaire's cash deposit mentioned in Section 2 of this part be not sufficient to cover the outstanding obligations of such concessionaire, the Assistant Secretary may close the concessionaires' property within the leased area or premises until payment is fully satisfied. This shall not prejudice the Assistant Secretary from taking such action and/or proceedings as may be deemed proper and necessary. Delinquent account due to government shall earn interest at the rate of one percent (1%) compounded monthly from receipt of the letter of demand by the tenant."

- 40.4 As of December 31, 2019, the CAAP Area Center (AC) XII – Butuan Airport had a total of 81 concessionaires, of which 48 or 60 per cent have lease contracts with CAAP AC XII based on the submitted Contract of Lease for Concession.
- 40.5 Review of the Contract of Lease for Concession made and entered into by and between the CAAP as the lessor and the concessionaire as the lessee revealed the following deficiencies:
1. Renewal/approval of lease contracts for CY 2019 was made only on May 29, 2019.
 2. Non-payment of advance rental fees and security deposit equivalent to two (2) months each.
 3. Non-collection of interest on delinquent accounts due to the lessee at the value of two per cent (2%) compounded monthly from the date of default.
 4. Non-enforcement of termination clause which states that *"Failure on the part of the Lessee to pay any rental fee 60 days from the due date thereof shall be considered sufficient ground for stoppage of use of the Leased Premises and automatic termination of this Contract without need for further notice and court action."*

- 40.6 Moreover, comparison of the data between the billing statements and the summary of payments of concessionaires prepared by the Billing Section of CAAP Area Center XII for the period January to December 2019, revealed that billed account to various concessionaires for rental fee, concession privilege fee, common use service area fee, royalty fee, garbage collection fee, water and electricity charges aggregated to P1.294 million. Out of the billed amount as of December 31, 2019, only P0.582 million or 45 per cent was collected, thereby, leaving a balance of unpaid rentals/fees from concessionaires amounting to P0.712 million, as presented below:

Table 30. Details of Receivables from Concessionaires

Period	Amount Billed	Amount Collected	Balance (Unpaid Rentals/ Fees)	Collection Efficiency
January - December 2019	1,294,220	582,390	711,830	45%

- 40.7 Further, analysis of the collections based on summary of payments of concessionaires prepared by the Billing Section of CAAP Area Center XII for the period January to December 2019, disclosed a total collection from concessionaires for the period January to December 2019 of P1.326 million. Out of the collected amount, only P0.582 million or 44 per cent pertains to billed accounts for CY 2019 while P0.744 million or 56 per cent pertains to prior years' billed accounts, as shown in the table below:

Table 31. Breakdown of Collections for Current Year and Prior Years'

Period	Amount Collected	Collection Efficiency
Current Year Billed Accounts	582,390	44%
Prior Years' Billed Accounts	743,738	56%
Total Collection CY 2019	<u>1,326,128</u>	100%

- 40.8 To determine the existence and accuracy of the unpaid rentals/fees from concessionaires, confirmation letters were sent out to selected debtors. Out of the 46 confirmation letters sent, seven or 15 per cent were with reply while, 39 debtors did not reply. The seven (7) concessionaires who replied confirmed their unpaid balance to CAAP Area Center XII totaling P157,625, showing no variance from the balance in the records of the Billing Section of CAAP Area Center XII. Results of confirmation are summarized in the table on the next page:

Table 32. Results of Confirmation

Particulars	Number of Confirmation Letters Sent	Amount per Confirmation Letter	Amount Confirmed by Concessionaires	Variance
Replied	7	157,355	157,355	-
No Replies	39	709,232	-	
Total	46	866,587	-	

40.9 Interview with the previous Billing In-Charge revealed that collection of unpaid rental/fees from concessionaires has been a problem of the Authority for quite a period of time, due to non-preparation of Contract of Lease. It was disclosed that the Agency started the preparation of the Contract of Lease sometime in 2017 with the help of the Business Development Division of CAAP Corporate Planning Office, which addressed the issues related to concession. However, it was noted that the contracts of lease for concession were submitted late to the Office of the Auditor due to the late approval of the said contracts from CAAP-Head Office. On the other hand, it was emphasized that they already implemented collection of interest on delinquent accounts due to the lessee effective July 2019 at one per cent of the unpaid balance.

40.10 Further, per inquiry with the Accountant on the difference of the provisions of Department Order No. 98-1178 and conditions stipulated in the Contract of Lease for Concession pertaining to interest rate to be used for delinquent accounts, he mentioned that they will refer it to the Business Development Division of CAAP Corporate Planning Office who is responsible for the preparation of the Contract of Lease for Concession. However, in the billing statement they used the one per cent interest rate on delinquent accounts.

40.11 Hence, the non-enforcement of some terms and conditions stipulated in the Contract of Lease for Concession and non-compliance with Article 1356 of Republic Act No. 386 and Department Order No. 98-1178, resulted in a low collection efficiency rate and deprived the Authority of funds that could be used for its operations, programs and/or projects.

40.12 We recommended that AC XII Management:

- 1. Direct the Billing In-Charge to submit the lacking approved Contract of Lease for Concession for 2019; prepare and renew the Contract of Lease for Concession at least 30 days prior to the expiration of the lease period, and coordinate with CAAP-Head Office on the speedy approval of the Contract of Lease for Concession;**
- 2. Strictly monitor the implementation of and compliance with the conditions stipulated in the Contract of Lease for Concession, particularly the following:**

- a. **Payment of advance rental fees and security deposit equivalent to two (2) month each;**
- b. **Collection of interest on delinquent accounts due to the lessee at the value of two per cent (2%) compounded monthly from the date of default; and**
- c. **Enforcement of termination clause; and**

3. Expedite the collection of unpaid balances by issuing demand letters to delinquent concessionaire.

40.13 CAAP Area Center XII Manager commented during the Exit Conference that they are waiting for the approved contracts from the CAAP-Head Office and that collection of interest on delinquent accounts and payment of advance rental fees and security deposit were already implemented.

41. The Authority did not apply for Wastewater Discharge Permit relative to the installation of sewage treatment tanks as required under Republic Act No. 9275 or the Philippine Clean Water Act of 2004, which may result in the imposition of fines and penalties for non-compliance with the said Act. Likewise, the eight sewage treatment tanks with a total cost of P14.712 million remained unutilized resulting in the loss of government funds.

41.1 Section 2, General Provisions of Presidential Decree (PD) No. 1445 provides that:

"It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring 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."

41.2 Moreover, Section 4 of Presidential Decree No. 1586 (PD No. 1586) states that:

"The President of the Philippines may, on his own initiative or upon recommendation of the National Environmental Protection Council, by proclamation declare certain projects, undertakings or areas in the country as environmentally critical. No person, partnership or corporation shall undertake or operate any such declared environmentally critical project or area without first securing an Environmental Compliance Certificate issued by the President or his duly authorized representative."Xxx

- 41.3 Likewise, pertinent sections of Republic Act No. 9275 or the “Philippine Clean Water Act of 2004” states that:

Section 14. Discharge Permits. – “The Department shall require owners or operators of facilities that discharge regulated effluents pursuant to this Act to secure a permit to discharge. The discharge permit shall be the legal authorization granted by the Department to discharge wastewater: Provided, that the discharge permit shall specify among others, the quantity and quality of effluent that said facilities are allowed to discharge into a particular water body, compliance schedule and monitoring requirement. Xxx”

Sec. 27. Prohibited Acts. - The following acts are hereby prohibited:

- h) “Undertaking activities or development and expansion of projects, or operating wastewater/sewerage facilities in violation of Presidential Decree. No.1586 and its implementing rules, and regulations”;*
- i) “Discharging regulated water pollutants without the valid required discharge permit pursuant to this Act or after the permit was revoked for any violation of condition therein”;*

Sec. 28. Fines, Damages and Penalties. – “Unless otherwise provided herein, any person who commits any of the prohibited acts provided in the immediately preceding Sec. or violates any of the provision of this Act or its implementing rules and regulations, shall be fined by the Secretary, upon the recommendation of the PAB in the amount of not less than Ten thousand pesos (P10,000.00) nor more than Two hundred thousand pesos (P200,000.00) for every day of violation. Xxx”

- 41.4 In order to verify the existence and condition of the various equipment and infrastructure projects procured by CAAP Area Center XII, the audit team conducted ocular inspection of said projects in the satellite airports under CAAP Area Center XII. The result of the ocular inspection revealed that the five (5) airports under CAAP Area Center XII has a total of eight (8) sewage treatment tanks with a total cost of P14.712 million, as presented in the table below:

Table 33. Number of Treatment Tank per Airport

Airport	Treatment Tank	Amount
Butuan	3	5,643,883.00
Surigao	1	1,595,536.50
Siargao	1	1,595,749.56
Tandag	2	4,280,644.56
Bislig	1	1,596,583.45
Total	8	14,712,397.07

- 41.5 Inquiry with the Airport Managers/Officers In-Charge/Concerned Personnel of each airport revealed that the Authority did not apply for Wastewater Discharge Permit from the Environmental Management Bureau (EMB) of the Department of Environment and Natural Resources (DENR) as they were not aware of such regulation. Moreover, it was disclosed that they did not request for the analysis of the effluents for said facilities.
- 41.6 Analysis of effluents is a procedure required in the application for Discharge Permit in order to determine compliance with the water quality standards/effluent standards set by DENR which an establishment is allowed to discharge into the environment. Under the Clean Water Act, DENR is mandated to enforce water quality guidelines for the preservation of the quality of water and prevention of water pollution. Thus, DENR as the agency responsible for the conservation and management of the country's environment and natural resources, continuously updates its Water Quality Guidelines and General Effluent Standards.
- 41.7 We recommended that Management:**
- 1. Apply for Wastewater Discharge Permit from the Environmental Management Bureau (EMB) for the sewage treatment tanks and ensure compliance with Republic Act No. 9275 or the "Philippine Clean Water Act of 2004"; and**
 - 2. Request for analysis of effluents for said facilities to validate the effectiveness of the project and achievement of its purpose.**
- 41.8 AC XII Area Manager commented during the Exit Conference that they are in the process of complying with the requirements of the Environmental Management Bureau (EMB) for the issuance of Wastewater Discharge Permit and analysis of effluents of the sewage treatment tanks.
- 41.9 Likewise, the Airport Manager of Siargao Airport replied that they already relayed the matter to the Area Manager of CAAP Area Center XII, and as compliance, the Area Center XII Pollution Control Officer designate has already taken steps for the completion of the requirements for the issuance of Wastewater Discharge Permit.
- 41.10 Moreover, the Airport Manager of Surigao Airport replied that last January 28, 2020, personnel from the EMB conducted an inspection of the airport's facilities and equipment. The Management was informed that a water discharge analysis should be performed by the personnel from EMB and that the request for the conduct of the said analysis must be done after the Airport received the said agency's findings and recommendations. The Airport Manager further informed that once the said findings and recommendations from the EMB is received, they will immediately comply with the Audit Team's recommendations and secure the required permit.

42. Various attributed programs included in the Gender and Development Plans and Budget (GPB) were not subjected to the Harmonized Gender and Development Guidelines (HGDG) test contributing to the non-compliance of the Authority with the five per cent budget allocation requirement.

- 42.1 PCW-NEDA-DBM Joint Circular No. 2012-01 prescribed the guidelines and procedures for the formulation, development, submission, implementation, monitoring and evaluation including accounting of results of agency annual GPB and GAD accomplishment reports (AR).
- 42.2 Paragraph 2.3 thereof requires that – “...*GAD Planning shall be integrated in the regular activities of the agencies, the cost of implementation of which shall be at least five per cent (5%) of their total budgets xxx.*”
- 42.3 Section 1.5 of the PCW Memorandum Circular No. 2016-05 dated 30 September 2016 states that – “*Aside from implementing direct GAD PAPs to address organization- or client-focused gender issues or GAD mandates, agencies may attribute a portion or the whole budget/expenditure of the agency’s major program/s or project/s to the GAD budget/expenditure using the Harmonized Gender and Development Guidelines (HGDG) tool. Major programs/projects subjected to the HGDG test shall be reflected under the GPB/GAD AR section on “ATTRIBUTED PROGRAMS...”*”
- 42.4 Further, Section 6.4 of the Joint Circular provides the guidelines in utilizing the attribution of major programs of an agency to the GAD program and the corresponding computation on the percentage of the budget for the ‘attributed programs’ which might be attributed to the GAD Budget and the GAD Accomplishment Report, depending on its HGDG scores.
- 42.5 The total GAD budget for CY 2019 is P761.362 million which is equivalent to 5.70 per cent of the total budget of the Authority. Out of the said GAD budget, a total of P302.410 million or 39.72 per cent pertains to infrastructure projects that was attributed to GAD. However, verification of the 2019 GPB disclosed that the Authority did not conduct an assessment of its attributed projects using the prescribed HGDG tool. Instead, the entire budget for each project was allocated to the GAD Budget. Moreover, our review disclosed that the 2019 GPB did not disclose any information as to the gender issues that will be addressed by these Attributed Programs.
- 42.6 The non-utilization of the HGDG test as required under the aforementioned provision precluded the Audit Team to verify the level of gender-responsiveness of the program/activity and to determine the corresponding percentage of its annual budget that may be attributed to the GAD budget.
- 42.7 As such, while our verification revealed that some of these projects were partially or fully implemented during the year, none of these can be attributed in the 2019 Budget and AR and only P458.952 million or 3.43 per cent, may

be attributable to the GAD budget, thus, falling short in meeting the five per cent budget allocation requirement prescribed under the above-cited Joint Circular.

42.8 The GAD Committee raised that the non-utilization of the HGDG tool was due to the lack of expertise of the GFPS members. We emphasize however that this observation was already raised last year through AOM No. 2019-015 (2018) dated March 15, 2019 to which Management committed that they will coordinate/meet with the PCW resource person to possibly conduct HGDG lectures with CAAP GAD TWG, however, review of GAD AR for CY 2019 disclosed that there was no specific activity to address the matter at hand, thus, the recurrence of the same issues.

42.9 We reiterated our prior year's audit recommendation that Management instruct the GAD TWG to coordinate with the PCW for the conduct of further trainings to capacitate CAAP personnel in the HO and Area Centers (ACs) in the use of HGDG tool in assessing the gender-responsiveness of the Authority's major programs and activities and determine the percentage of budget that can be allocated to the GPB.

43. The amount appropriated for GAD programs, projects and activities in CY 2019 was not fully utilized, leaving an unused balance of P410.010 million at year-end, thus, the objectives of the projects/programs to pursue women's empowerment and gender equality were not attained.

43.1 Our audit of the utilization of GAD funds disclosed that out of P458.952 million of CY 2019 GAD budget for client and organization focused GAD activities, only 10.66 per cent or P48.941 million was used during the year, as shown on the table below:

Table 34. Schedule of Accomplished PAPs

	No. of PAPs	No. of PAPs Accomplished	GAD Budget (in thousand Pesos)	Actual Expenditures (in thousand Pesos)	% of Accomplishment
Client-Focused projects (CFPs)	15	0	109,392.00	25,633.78	3.37%
Organization- Focused projects (OFPs)	24	6	349,560.00	23,307.23	3.06%
	39	6	458,952.00	48,941.01	6.43%

43.2 Further review of 2019 GAD AR disclosed that only a portion of the targeted Organization-Focused Activities were fully accomplished, while none of the targeted Client-Focused Activities were completed during the year.

43.3 The low percentage of accomplishment on the implementation of the proposed PAPs indicates that Management was not able to address the gender issues included in the FY 2019 GPB, thereby depriving the intended beneficiaries of the benefits that may be derived from GAD PAPs. It also shows inadequate planning in coming up with projects that are not only effective in addressing gender issues, but attainable.

43.4 We recommended and Management agreed to:

- a. Consider the attainability of GAD PAPs in the formulation of the agency's GPB; and**
- b. Create an effective monitoring tool to ensure proper implementation of identified GAD PAPs.**

44. Presentation of Performance Indicators and Target for the year in the GAD Accomplishment Report were not clear, complete and in compliance with CW-NEDA-DBM Joint Circular No. 2012-01, which resulted in the difficulty in determining the level of accomplishment of each GAD activity of the Authority.

44.1 PCW-NEDA-DBM Joint Circular No. 2012-01 prescribes the guidelines and procedures for the formulation, development, submission, implementation, monitoring and evaluation including accounting of results of agency annual GPB and GAD Accomplishment Reports (AR).

44.2 Annex A and B of the above-mentioned Joint Circular provided descriptions of each column of the prescribed GPB and GAD AR, respectively, to promote standard reporting procedure.

44.3 Under Column 6: Performance Indicators and Targets of Annex B, it provides that *"The output Indicators are quantitative or qualitative means to measure achievement of the results of the proposed activity and how they contribute to the realization of the GAD objective. For one-year planning, indicators are at the output level to measure the direct results of implementing the GAD activities"*.

44.4 Our audit of the 2019 GAD AR disclosed that the Performance Indicators/ Target presented under Column 6 were not clearly presented and incomplete as compared to the stated Performance Indicators / Target in 2019 GAD GPB, thus, making it difficult to determine the level of accomplishment of each targeted activities during the year.

44.5 We recommended and Management agreed to instruct the GAD-TWG to strictly adhere to the provisions of the PCW-NEDA-DBM Joint Circular No. 2012-01 on the proper and complete reporting of GPBs and GAD ARs.

45. Non-institutionalization of GAD Database/Sex-Disaggregated Data casted doubt on whether the identified programs and activities of the Authority to address gender issues are truly reflective of the existing issues faced by its clients and employees.

45.1 Section 4.4 of the PCW-NEDA-DBM Joint Circular No. 2012-01 states that:

“Institutionalizing GAD Database/Sex-disaggregated Data (SDD): The agency shall develop or integrate in its existing database GAD information to include gender statistics and sex-disaggregated data that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming, and policy formulation.”

45.2 The GAD Database/SDD is one of the essential elements in GAD planning and budgeting as they enable agencies to effectively plan and implement their agency-wide programs on GAD. It serves as an important tool to facilitate the conduct of gender analysis within the organization and identifying GAD issues affecting the clients in relation to the attainment of its mandate.

45.3 Non-implementation of the GAD Database/SDD casts doubt on the existence and/or effectivity of GAD analysis conducted by the Authority, as well as the significance of identified gender issues in the GPB affecting the employees and clients. It casts doubt on whether the identified gender issues in the GPB are truly reflective of the existing gender issues faced by its clients and employees.

45.4 We reiterated our prior year’s recommendation that Management instruct the Human Resource Management Office (HRMO) in coordination with GAD-TWG to develop a GAD Database/Sex-Disaggregated Data and capacitate GAD GFPS on its use and importance to be able to aid the focal point in the determination of gender issues and corresponding actions to address it.

46. Compliance with Tax Laws

46.1 For CY 2019, the CAAP Head Office and 12 Area Centers have substantially complied with the requirements on the withholding and remittances of taxes on gross compensation income from officials and employees and on government purchases and contract of services from private entities under Revenue Regulation No. 10-2008 date July 8, 2008, as shown on the next page:

Table 35. Taxes Withheld and Remitted

Offices	Beginning Balance, January 1, 2019	Adjustments During the Year	Taxes During CY 2018		Balances, December 31, 2019
			Tax Withheld	Tax Remitted	
Head Office	50,990,460.00	(1,454,609.00)	227,026,508.00	223,220,912.00	53,341,447.00
Area Centers:					
Area 01	1,067,174.00	(37,510.00)	9,802,202.00	9,569,259.00	1,262,607.00
Area 02	457,050.00	0	5,540,546.00	5,078,634.00	918,962.00
Area 03	7,524,247.00	0	16,647,917.00	16,895,273.00	7,276,891.00
Area 04	1,132,095.00	(287,206.00)	10,374,986.00	9,524,036.00	1,695,839.00
Area 05	887,957.00	(580,368.00)	10,621,540.00	10,622,116.00	307,013.00
Area 06	1,487,320.00	0	34,516,284.00	33,726,794.00	2,276,810.00
Area 07	5,060,128.00	0	28,603,412.00	31,431,192.00	2,232,348.00
Area 08	846,363.00	(81,878.00)	9,213,782.00	8,580,231.00	1,398,036.00
Area 09	1,379,042.00	213,363.00	15,378,619.00	14,283,894.00	2,687,130.00
Area 10	1,086,821.00	0	13,041,050.00	11,140,342.00	2,987,529.00
Area 11	3,888,763.00	0	26,379,820.00	26,022,418.00	4,246,165.00
Area 12	323,595.00	(10,507.00)	9,770,234.00	10,004,969.00	78,353.00
Total, Area Centers	25,140,555.00	(784,106.00)	189,890,392.00	186,879,158.00	27,367,683.00
Grand Total	76,131,015.00	(2,238,715.00)	416,916,900.00	410,100,070.00	80,709,130.00

46.2 On the remittance of Value Added Tax, we observed that the Authority only started using the VAT-registered ORs in October 2019. To be able to comply and remit the required VAT for the first until third quarter of CY 2019, output tax was computed by grossing up the total revenue recognized for each period by 112 per cent and multiplying it by 12 per cent.

46.3 For CY 2019, the Authority has remitted Value Added Tax totaling P305.337 million, while leaving an outstanding VAT Payable balance of P34.208 million, to be remitted in CY 2020.

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

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

Table 36. GSIS, Pag-IBIG and PhilHealth Premiums/Loan Amortizations and Remittances

Particulars	Balances as of January 1, 2019	Adjustment(s)	Premiums and Loan Amortization collected for CY2019	Remittances	Balance as of December 31, 2019
GSIS	P24,846,372	P1,088,573	P327,839,461	P339,605,941	P14,168,465
Pag-IBIG	5,096,429	(167,868)	53,420,779	53,996,022	4,353,318
PhilHealth	1,988,030	480,489	24,648,806	23,305,921	3,811,404
TOTAL	P31,930,831	P1,401,194	P405,909,045	P416,907,883	P22,333,186

48. Enforcement of COA Audit Suspensions, Disallowances and Charges

48.1 The total audit suspensions, disallowances and charges found in the audit of transactions as of December 31, 2019, based on the Notice of Suspension (NS)/Notice of Disallowance (ND)/Notice of Charge (NC)/Notice of Settlement of Suspensions and Disallowances/Charges (NSSDC) issued by this Commission, is summarized below:

HEAD OFFICE

Table 37. Summary of Audit Suspensions, Disallowances and Charges in the Head Office

Particulars	Beginning Balance as of January 1, 2019	This Period January 1 to December 31, 2019		Ending Balance as of December 31, 2019
		NS/ND/NC	NSSDC	
Notice of Suspension	30,373,276.36	158,161,783.70	870,153.66	187,664,906.40
Notice of Disallowance	226,126,668.07	502,922,343.16	380,825.17	728,668,186.06
Notice of Charge	30,912.65	0	0	30,912.65
TOTAL	256,530,857.08	661,084,126.86	1,250,978.83	916,364,005.11
% of settlement			0.14%	

AREA CENTERS

Table 38. Summary of Audit Suspension, Disallowances and Charges in the Area Centers

Particulars	Beginning Balance as of January 1, 2019	Adjustment	This period January 1 to December 31, 2019		Ending Balance as of December 31, 2019
			NS/ND/NC	NSSDC	
Notice of Suspensions					
AC 5	1,733,531	0	2,365,010	1,168,134	2,930,407
AC 7	0	11,322,506	0	11,322,506	0
AC 8	2,085,160	(20,173)	0	1,208,502	856,485
AC 11	0	0	157,127	157,127	0
AC 12	20,933,722		3,577,187	9,070,885	15,440,024
TOTAL	24,752,413	11,302,333	6,099,324	22,927,154	19,226,916
% of settlement				54.39%	

Particulars	Beginning Balance as of January 1, 2019	Adjustment	This period January 1 to December 31, 2019		Ending Balance as of December 31, 2019
			NS/ND/NC	NSSDC	
Notice of Disallowance					
AC 1	16,342,938	0	0	0	16,342,938
AC 2	8,321,783	0	0	0	8,321,783
AC 3	17,676,774	0	0	0	17,676,774
AC 4	11,676,055	0	0	0	11,676,055
AC 5	22,225,913	0	104,159	14,642	22,315,430
AC 6	67,135,151	0	0	15,394	67,119,757
AC 7	41,530,411	0	7,840	7,840	41,530,411
AC 8	9,371,532	(1,299)	56	17,266	9,353,023
AC 9	26,803,906	87,339	0	64,138	26,827,107
AC 10	108,678,779	0	0	91,219	108,587,560
AC 11	39,246,389	0	0	179,800	39,066,589
AC 12	7,423,259	0	10,368	175,823	7,257,804
TOTAL	376,432,890	86,040	122,423	566,122	376,075,231
% of settlement				0.15%	

- 48.2 Majority of the disallowances issued for CY 2019 pertained to liquidation reports of cash advances for official local and foreign travels of officials and employees of CAAP.
- 48.3 The most significant and material disallowance issued was for the payment to United Coconut Planters Life Assurance Corporation (COCOLIFE) amounting to P500 million for single-pay variable life insurances of the Authority's key men without the necessary approval of its Board of Directors, without an in-depth study prior to investment and with no adequate criteria for the selection of the 10 insured key men (Page 85 to 90 of CY 2018 Annual Audit Report).