



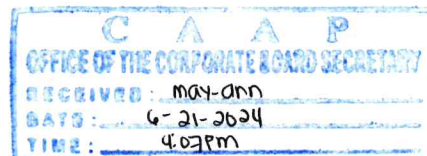
REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 4 – INDUSTRIAL AND AREA DEVELOPMENT

June 21, 2024

THE BOARD OF DIRECTORS

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



Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of Civil Aviation Authority of the Philippines (CAAP) for the years ended December 31, 2023, and 2022.

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

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of CAAP for the years 2023 and 2022 because the qualitative characteristics of verifiability and faithful representation of the accounts hereunder could not be ascertained, which is not in accordance with Philippine Accounting Standards (PAS) 1 on *Presentation of Financial Statements* and the Conceptual Framework for Financial Reporting. These accounts are as follows:

1. Property and Equipment (PE) account with a carrying value amounting to P57.156 billion due to: a) the non-reconciliation of the variance amounting to P10.817 billion and P112.328 million between the balance per General Ledger (GL) vis-à-vis the balances per inventory report/property records and the Subsidiary Ledgers (SLs), respectively; and b) the non-recognition of land with an undetermined area and value, located in Pasay City, where the CAAP-Head Office Administrative Compound, Manila Control Tower, CAAP Hangar and Manila Radar are situated.
2. The faithful representation of the carrying amounts of the Accounts Receivable (AR) and Operating Lease Receivable (OLR) accounts of P3.906 billion and P308.477 million, respectively, could not be ascertained due to: a) the inadequate allowance for expected credit loss despite the existence of long-outstanding receivable balances with carrying value of P1.622 billion; and b) the non-reconciliation of the variance of P344.790 million between the balances of the GL and SLs.

3. Input Tax account amounting to P269.582 million due to the non-reconciliation of the variance of P210.671 million between the GL and the input tax computed from unpaid purchases in accounts payable.
4. Inventory account amounting to P138.194 million due to: a) the non-reconciliation of the variance of P47.193 million between the balance per GL vis-à-vis the balances per inventory reports/property records; b) unrecorded utilization of inventory; and c) non-recognition of impairment loss to write-down inventory to its net realizable value not in accordance with PAS 2 on *Inventories*.

For the above observations, which caused the issuance of a qualified opinion, we recommended the following:

Property and Equipment

1. Variance of P10.817 billion between the balances per books of accounts and the Report on the Physical Count of Property, Plant, and Equipment (RPCPPE)

We reiterated our prior years' recommendations, with modification, that Management direct:

- a. CIRC, in coordination with the Supply and Accounting Divisions of CAAP-HO and ACs to:
 - i. Strictly implement the guidelines outlined in COA Circular No. 2020-006 dated January 31, 2020, and CAAP Memorandum dated December 28, 2023, regarding the Physical Inventory Plan (PIP) for the One-Time Cleansing of PPE Account Balance of CAAP to reconcile the variances between the balances per books and the RPCPPE; and
 - ii. Assess the value of PE items found at the station in case no such information could be found in both accounting and supply records;
- b. CAAP-HO and ACs Accounting Division to make the necessary adjustments for the recognition of PE items found at the station and disposition of non-existing/missing PE items, if warranted, to reflect the correct PE account balances;
- c. ACs V, IX, and XI to maintain updated accounting and property records; and
- d. ACs II and V to finalize and submit the inventory reports and other supporting documents to the Audit Team.

We further recommended that Management direct AC VI to issue demand letters to the accountable personnel responsible for non-existing or missing properties and instruct the Accounting Unit to set up receivable accounts for those personnel who were unable to produce the PE items, if appropriate.

2. Variance between General Ledger and Subsidiary Ledgers amounting to P112.328 million

We reiterated our prior years' recommendations, with modification, that Management direct:

- a. CAAP-HO AD to exert effort to locate the supporting documents of prior years' transactions to be able to reconcile the GL and SL balances and prepare the necessary adjusting entries, if warranted;
- b. AC X to enjoin the Accountant and Property Custodian to update the lapsing schedule and RPCPPE once the cleansing is completed and make necessary adjustments to reflect the correct amounts of reported PPEs and related depreciation expenses for the fair presentation of financial statements, copy furnish COA of the adjustments made; and
- c. AC X Accounting Unit and the Property and Supply Office/Unit to maintain Property, Plant, and Equipment Ledger Cards (PPELC) and Property Cards (PC) for all existing and newly acquired PPEs, respectively, to ensure that the balances of both cards are always reconciled.

We further recommended that Management direct AC X to ensure that all relevant data, including appraisal values and derecognition of items, are updated in the relevant reports during the one-time cleansing of PPE.

3. The non-recognition of land with an undetermined area and value, located in Pasay City, where the CAAP-Head Office Administrative Compound, Manila Control Tower, CAAP Hangar, and Manila Radar are situated.

We reiterated our prior year's recommendations that Management:

- a. Require CAAP-HO RETTF, in coordination with Asset Management Division (AMD), Aerodrome Development and Management Service (ADMS), SD, and AD to expedite the validation of the unrecorded land by obtaining the necessary documents (i.e. documents for the transfer of properties, appraisal reports, titles, etc.) and coordinate with the source agencies for documents to support the transfers; and
- b. Direct the CAAP-HO AD to make the necessary adjustments to reflect the correct balances of the accounts in the financial statements.

Accounts Receivable (AR) and Operating Lease Receivable (OLR)

1. Inadequate allowance for impairment/expected credit losses based on the requirements of PFRS 9 despite the existence of long-outstanding receivable balances with a carrying value of P1.622 billion

We reiterated our previous year's recommendations, with modification, that the CAAP-HO Accounting Division:

- a. Adhere to the impairment requirements of PFRS 9 on the recognition and measurement of Expected Credit Losses of *Accounts Receivable* and, accordingly, incorporate the same in its Accounting Policy;
 - b. Establish concrete plans to facilitate the completion of the detailed review and evaluation of the Authority's receivables portfolio necessary for the calculation of the ECL; and
 - c. Prepare adjusting entries to ensure the fair presentation of the receivable accounts and the related impairment loss accounts in compliance with PFRS 9.
2. Variance of P344.790 million between the General Ledger (GL) and Subsidiary Ledger (SL) balances per Aging Reports of Accounts Receivable (AR)/Operating Lease Receivable (OLR)

We recommended that Management direct the Accounting Division in CAAP-HO and all Area Centers to conduct an in-depth examination and periodic reconciliation to identify the other possible factors contributing to the variance between the GL and the SL balances. Prepare the necessary adjusting entries, if warranted.

Input Tax

The reliability of the balance of the Input Tax account amounting to P269.582 million as of December 31, 2023, could not be ascertained due to the non-reconciliation of the variance of P210.671 million between the GL and the input tax computed from unpaid purchases in accounts payable.

We recommended that Management instruct the Accounting Division to:

- a. Prepare immediately SLs or a schedule of input taxes to support the *Input Tax* account, ensuring that essential information required for the preparation of the SLSP is readily available and included in the SL/schedule;
- b. Reconcile the balance in the *Input Tax* account with the input tax recorded in the *Accounts Payable* account and prepare the necessary Journal Entry Voucher to rectify any discrepancies in the account balance; and
- c. Ensure the proper and continuous maintenance of the SLs or supporting schedule.

Inventory Held for Consumption

The Inventory accounts with an aggregate balance of P138.194 million, net of impairment, were not faithfully represented in the financial statements of CAAP due to: a) the unreconciled variance between accounting records and the Report on Physical Count of Inventories (RPCI) and Report on Physical Count of Semi-Expendable Properties (RPCSP) amounting to P47.193 million, and b) non-recognition of Allowance for Impairment.

We recommended that Management:

For CAAP-HO, AC V, AC VI, AC IX and AC XII:

- a. Establish an Inventory Committee that includes both Chiefs of the Supply and Accounting Division who will be responsible for the following:
 - i. Planning, executing, and reporting of the conduct of physical count of inventories, including the subsequent reconciliation of accounts;
 - ii. Investigate any shortages to determine the accountability of erring personnel for overages, ensure that it is reconciled with control records; and
 - iii. The Committee to provide a valid and justifiable explanation to the Director General in the event of any failure to conduct the physical count, reconcile the records, or timely submit the RPCI and RPCSP to the Audit Team.
- b. Require both the Supply and Accounting Divisions to meticulously prepare and maintain SCs, SPCs, SLCs, and SPLCs; and
- c. Ensure the timely and accurate preparation of RSMLs, supported by duly accomplished Requisition and Issue Slips.

For CAAP-HO and AC VI:

- d. Once the accuracy of the RPCI and RPCSP are validated and compared against other control records, require the Accounting Division to recognize impairment in the books of accounts to write down inventory to its net realizable value in accordance with PAS 2.

For CAAP-HO:

- e. Instruct the Accounting Division to prioritize the retrieval of records relative to FOLI consumptions for CY 2017 and CY 2018 and to record the utilization accurately in the books of accounts.

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

1. The weakness in CAAP's internal control more particularly on control activities on the payments to the service provider of Institutional Contract of Service (ICOS) for salaries and overtime, aggregating P3.407 billion covering the period March 2020 to December 31, 2023, could be disadvantageous to CAAP and to the government.

We reiterated our previous year's recommendations, with modification, that Management:

- a. Direct the Chiefs of the Accounting Division, the HRMD, and other key offices of CAAP, to formulate a documented policy on the processing of all claims of the service provider for ICOS. Ensure that controls are embedded in the process and

that all claims are accurate, 100 per cent validated, reviewed, approved, and monitored. The policy also has to include, among others, the duties and responsibilities of each office/personnel involved, the procedures to be done, the timelines, and documentary requirements;

- b. Require the Accountant to:
 - i. Maintain a database to facilitate the monitoring of all claims paid to the service provider on a per-individual personnel basis. This is to ensure that all claims are valid and mitigate the risk of double payments; and
 - ii. Designate a personnel who is not an employee of the service provider to handle the processing of the claims;
 - c. Instruct the Chief, HRMD to only certify that services have indeed been satisfactorily rendered by the service provider after obtaining sufficient documentary evidence to support such certification; and
 - d. Decentralize the processing of service provider claims to Area Centers to better manage the volume of transactions that need to be validated.
2. Non-remittance to CAAP of *unrefunded* Domestic Passenger Service Charges (DPSC) collected by the Air Carriers from *Expired/Unused Passenger Tickets* and *Locally-Recognized Exempted Passengers (LREP)* since the implementation of the Integration of DPSC at the Point of Sale of Airline Tickets in CY 2017 resulted in an undetermined amount of uncollected income for the government.

We recommended that Management amend CAAP MC No. 022-17 to explicitly include enforcement mechanisms that would ensure Air Carriers' remittance to CAAP of the *unrefunded* DPSCs from CY 2017 to the present.

In addition, consider to include the following provisions:

For *Air Carriers*:

- a. Submission of a detailed report on refunds made directly to paying passengers; and
- b. Setting up of a *Trust Liability* or another clearly identifiable account in the books of accounts as funds due to CAAP;

For the *Accounting Division*:

- c. Issuance of balance confirmations or other form of correspondence to verify the total amount of DPSCs collected but not yet refunded nor remitted to CAAP; and
- d. Creation of a committee to regularly inspect and audit DPSCs in the books of Air Carriers.

3. CAAP remitted P366.485 million to the Bureau of Internal Revenue (BIR) despite having creditable input tax with an aggregate amount of P293.861 million to partially satisfy its Value-Added Tax (VAT) payable for CY 2023, which deprived CAAP of additional funds it could use to fulfill its mandate.

We recommended that Management require both the Chief Accountant and the Department Manager III, Finance Department, to:

- a. Submit an explanation to the Director General and the Audit Team, along with a detailed plan of action on how they will ensure that all creditable input taxes are first utilized prior to disbursing funds for VAT Payable; and
 - b. Include the General Ledger of the *Creditable Input Tax* account and the previous quarter's VAT return as part of the documentary requirements when processing the quarterly remittance of VAT Payable.
4. CAAP did not include creditable withholding taxes and previous overpayment on income taxes with an aggregate amount of P159.775 million as tax credits in its Income Tax Returns (ITRs), thus exposing the Authority to risk of loss due to foregone tax credits. Further, CAAP did not secure the necessary BIR Forms to support the creditable withholding taxes amounting to P79.493 million which rendered the balance of the *Withholding Tax at Source* (WTaS) account unreliable.

We reiterated our prior year's recommendations, with modifications, that Management direct the Department Manager III, Finance Department, and the Chief Accountant to:

- a. Submit a valid explanation/justification for the non-application of tax credits in CAAP's income tax returns, and, considering the implication of the issue, clarify why no significant action was taken in CY 2023 to address the matter;
- b. Secure all BIR Form No. 2307 to support the balance in the WTaS account and immediately coordinate with the BIR to amend previously filed ITRs; and
- c. Moving forward, ensure proper monitoring of creditable withholding taxes in the WTaS account by requiring BIR Form No. 2307 as part of the supporting documents when recording creditable withholding tax.

The other observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on June 6, 2024, are presented in detail in Part II of the report.

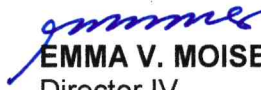
In a letter of even date, we requested the CAAP's Director General to take appropriate actions on the recommendations contained in the report and to inform this office of the actions taken thereon within 60 days from the date of receipt.

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

Very truly yours,

COMMISSION ON AUDIT

By:


EMMA V. MOISES
Director IV
Cluster Director

Copy furnished:

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



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 4 – INDUSTRIAL AND AREA DEVELOPMENT

June 21, 2024

CAPTAIN MANUEL ANTONIO L. TAMAYO

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



Dear Captain Tamayo:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of Civil Aviation Authority of the Philippines (CAAP) for the years ended December 31, 2023, and 2022.

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

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of CAAP for the years 2023 and 2022 because the qualitative characteristics of verifiability and faithful representation of the accounts hereunder could not be ascertained, which is not in accordance with Philippine Accounting Standards (PAS) 1 on *Presentation of Financial Statements* and the Conceptual Framework for Financial Reporting. These accounts are as follows:

1. Property and Equipment (PE) account with a carrying value amounting to P57.156 billion due to: a) the non-reconciliation of the variance amounting to P10.817 billion and P112.328 million between the balance per General Ledger (GL) vis-à-vis the balances per inventory report/property records and the Subsidiary Ledgers (SLs), respectively; and b) the non-recognition of land with an undetermined area and value, located in Pasay City, where the CAAP-Head Office Administrative Compound, Manila Control Tower, CAAP Hangar and Manila Radar are situated.
2. The faithful representation of the carrying amounts of the Accounts Receivable (AR) and Operating Lease Receivable (OLR) accounts of P3.906 billion and P308.477 million, respectively, could not be ascertained due to: a) the inadequate allowance for expected credit loss despite the existence of long-outstanding receivable balances with carrying value of P1.622 billion; and b) the non-reconciliation of the variance of P344.790 million between the balances of the GL and SLs.

3. Input Tax account amounting to P269.582 million due to the non-reconciliation of the variance of P210.671 million between the GL and the input tax computed from unpaid purchases in accounts payable.
4. Inventory account amounting to P138.194 million due to: a) the non-reconciliation of the variance of P47.193 million between the balance per GL vis-à-vis the balances per inventory reports/property records; b) unrecorded utilization of inventory; and c) non-recognition of impairment loss to write-down inventory to its net realizable value not in accordance with PAS 2 on *Inventories*.

For the above observations, which caused the issuance of a qualified opinion, we recommended the following:

Property and Equipment

1. Variance of P10.817 billion between the balances per books of accounts and the Report on the Physical Count of Property, Plant, and Equipment (RPCPPE)

We reiterated our prior years' recommendations, with modification, that Management direct:

- a. CIRC, in coordination with the Supply and Accounting Divisions of CAAP-HO and ACs to:
 - i. Strictly implement the guidelines outlined in COA Circular No. 2020-006 dated January 31, 2020, and CAAP Memorandum dated December 28, 2023, regarding the Physical Inventory Plan (PIP) for the One-Time Cleansing of PPE Account Balance of CAAP to reconcile the variances between the balances per books and the RPCPPE; and
 - ii. Assess the value of PE items found at the station in case no such information could be found in both accounting and supply records;
- b. CAAP-HO and ACs Accounting Division to make the necessary adjustments for the recognition of PE items found at the station and disposition of non-existing/missing PE items, if warranted, to reflect the correct PE account balances;
- c. ACs V, IX, and XI to maintain updated accounting and property records; and
- d. ACs II and V to finalize and submit the inventory reports and other supporting documents to the Audit Team.

We further recommended that Management direct AC VI to issue demand letters to the accountable personnel responsible for non-existing or missing properties and instruct the Accounting Unit to set up receivable accounts for those personnel who were unable to produce the PE items, if appropriate.

2. Variance between General Ledger and Subsidiary Ledgers amounting to P112.328 million

We reiterated our prior years' recommendations, with modification, that Management direct:

- a. CAAP-HO AD to exert effort to locate the supporting documents of prior years' transactions to be able to reconcile the GL and SL balances and prepare the necessary adjusting entries, if warranted;
- b. AC X to enjoin the Accountant and Property Custodian to update the lapsing schedule and RPCPPE once the cleansing is completed and make necessary adjustments to reflect the correct amounts of reported PPEs and related depreciation expenses for the fair presentation of financial statements, copy furnish COA of the adjustments made; and
- c. AC X Accounting Unit and the Property and Supply Office/Unit to maintain Property, Plant, and Equipment Ledger Cards (PPELC) and Property Cards (PC) for all existing and newly acquired PPEs, respectively, to ensure that the balances of both cards are always reconciled.

We further recommended that Management direct AC X to ensure that all relevant data, including appraisal values and derecognition of items, are updated in the relevant reports during the one-time cleansing of PPE.

3. The non-recognition of land with an undetermined area and value, located in Pasay City, where the CAAP-Head Office Administrative Compound, Manila Control Tower, CAAP Hangar, and Manila Radar are situated.

We reiterated our prior year's recommendations that Management:

- a. Require CAAP-HO RETTF, in coordination with Asset Management Division (AMD), Aerodrome Development and Management Service (ADMS), SD, and AD to expedite the validation of the unrecorded land by obtaining the necessary documents (i.e. documents for the transfer of properties, appraisal reports, titles, etc.) and coordinate with the source agencies for documents to support the transfers; and
- b. Direct the CAAP-HO AD to make the necessary adjustments to reflect the correct balances of the accounts in the financial statements.

Accounts Receivable (AR) and Operating Lease Receivable (OLR)

1. Inadequate allowance for impairment/expected credit losses based on the requirements of PFRS 9 despite the existence of long-outstanding receivable balances with a carrying value of P1.622 billion

We reiterated our previous year's recommendations, with modification, that the CAAP-HO Accounting Division:

- a. Adhere to the impairment requirements of PFRS 9 on the recognition and measurement of Expected Credit Losses of *Accounts Receivable* and, accordingly, incorporate the same in its Accounting Policy;
 - b. Establish concrete plans to facilitate the completion of the detailed review and evaluation of the Authority's receivables portfolio necessary for the calculation of the ECL; and
 - c. Prepare adjusting entries to ensure the fair presentation of the receivable accounts and the related impairment loss accounts in compliance with PFRS 9.
2. Variance of P344.790 million between the General Ledger (GL) and Subsidiary Ledger (SL) balances per Aging Reports of Accounts Receivable (AR)/Operating Lease Receivable (OLR)

We recommended that Management direct the Accounting Division in CAAP-HO and all Area Centers to conduct an in-depth examination and periodic reconciliation to identify the other possible factors contributing to the variance between the GL and the SL balances. Prepare the necessary adjusting entries, if warranted.

Input Tax

The reliability of the balance of the Input Tax account amounting to P269.582 million as of December 31, 2023, could not be ascertained due to the non-reconciliation of the variance of P210.671 million between the GL and the input tax computed from unpaid purchases in accounts payable.

We recommended that Management instruct the Accounting Division to:

- a. Prepare immediately SLs or a schedule of input taxes to support the *Input Tax* account, ensuring that essential information required for the preparation of the SLSP is readily available and included in the SL/schedule;
- b. Reconcile the balance in the *Input Tax* account with the input tax recorded in the *Accounts Payable* account and prepare the necessary Journal Entry Voucher to rectify any discrepancies in the account balance; and
- c. Ensure the proper and continuous maintenance of the SLs or supporting schedule.

Inventory Held for Consumption

The Inventory accounts with an aggregate balance of P138.194 million, net of impairment, were not faithfully represented in the financial statements of CAAP due to: a) the unreconciled variance between accounting records and the Report on Physical Count of Inventories (RPCI) and Report on Physical Count of Semi-Expendable Properties (RPCSP) amounting to P47.193 million, and b) non-recognition of Allowance for Impairment.

We recommended that Management:

For CAAP-HO, AC V, AC VI, AC IX and AC XII:

- a. Establish an Inventory Committee that includes both Chiefs of the Supply and Accounting Division who will be responsible for the following:
 - i. Planning, executing, and reporting of the conduct of physical count of inventories, including the subsequent reconciliation of accounts;
 - ii. Investigate any shortages to determine the accountability of erring personnel for overages, ensure that it is reconciled with control records; and
 - iii. The Committee to provide a valid and justifiable explanation to the Director General in the event of any failure to conduct the physical count, reconcile the records, or timely submit the RPCI and RPCSP to the Audit Team.
- b. Require both the Supply and Accounting Divisions to meticulously prepare and maintain SCs, SPCs, SLCs, and SPLCs; and
- c. Ensure the timely and accurate preparation of RSMLs, supported by duly accomplished Requisition and Issue Slips.

For CAAP-HO and AC VI:

- d. Once the accuracy of the RPCI and RPCSP are validated and compared against other control records, require the Accounting Division to recognize impairment in the books of accounts to write down inventory to its net realizable value in accordance with PAS 2.

For CAAP-HO:

- e. Instruct the Accounting Division to prioritize the retrieval of records relative to FOLI consumptions for CY 2017 and CY 2018 and to record the utilization accurately in the books of accounts.

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

1. The weakness in CAAP's internal control more particularly on control activities on the payments to the service provider of Institutional Contract of Service (ICOS) for salaries and overtime, aggregating P3.407 billion covering the period March 2020 to December 31, 2023, could be disadvantageous to CAAP and to the government.

We reiterated our previous year's recommendations, with modification, that Management:

- a. Direct the Chiefs of the Accounting Division, the HRMD, and other key offices of CAAP, to formulate a documented policy on the processing of all claims of the service provider for ICOS. Ensure that controls are embedded in the process and

that all claims are accurate, 100 per cent validated, reviewed, approved, and monitored. The policy also has to include, among others, the duties and responsibilities of each office/personnel involved, the procedures to be done, the timelines, and documentary requirements;

- b. Require the Accountant to:
 - i. Maintain a database to facilitate the monitoring of all claims paid to the service provider on a per-individual personnel basis. This is to ensure that all claims are valid and mitigate the risk of double payments; and
 - ii. Designate a personnel who is not an employee of the service provider to handle the processing of the claims;
 - c. Instruct the Chief, HRMD to only certify that services have indeed been satisfactorily rendered by the service provider after obtaining sufficient documentary evidence to support such certification; and
 - d. Decentralize the processing of service provider claims to Area Centers to better manage the volume of transactions that need to be validated.
2. Non-remittance to CAAP of *unrefunded* Domestic Passenger Service Charges (DPSC) collected by the Air Carriers from *Expired/Unused Passenger Tickets* and *Locally-Recognized Exempted Passengers (LREP)* since the implementation of the Integration of DPSC at the Point of Sale of Airline Tickets in CY 2017 resulted in an undetermined amount of uncollected income for the government.

We recommended that Management amend CAAP MC No. 022-17 to explicitly include enforcement mechanisms that would ensure Air Carriers' remittance to CAAP of the *unrefunded* DPSCs from CY 2017 to the present.

In addition, consider to include the following provisions:

For *Air Carriers*:

- a. Submission of a detailed report on refunds made directly to paying passengers; and
- b. Setting up of a *Trust Liability* or another clearly identifiable account in the books of accounts as funds due to CAAP;

For the *Accounting Division*:

- c. Issuance of balance confirmations or other form of correspondence to verify the total amount of DPSCs collected but not yet refunded nor remitted to CAAP; and
- d. Creation of a committee to regularly inspect and audit DPSCs in the books of Air Carriers.

3. CAAP remitted P366.485 million to the Bureau of Internal Revenue (BIR) despite having creditable input tax with an aggregate amount of P293.861 million to partially satisfy its Value-Added Tax (VAT) payable for CY 2023, which deprived CAAP of additional funds it could use to fulfill its mandate.

We recommended that Management require both the Chief Accountant and the Department Manager III, Finance Department, to:

- a. Submit an explanation to the Director General and the Audit Team, along with a detailed plan of action on how they will ensure that all creditable input taxes are first utilized prior to disbursing funds for VAT Payable; and
 - b. Include the General Ledger of the *Creditable Input Tax* account and the previous quarter's VAT return as part of the documentary requirements when processing the quarterly remittance of VAT Payable.
4. CAAP did not include creditable withholding taxes and previous overpayment on income taxes with an aggregate amount of P159.775 million as tax credits in its Income Tax Returns (ITRs), thus exposing the Authority to risk of loss due to foregone tax credits. Further, CAAP did not secure the necessary BIR Forms to support the creditable withholding taxes amounting to P79.493 million which rendered the balance of the *Withholding Tax at Source* (WTaS) account unreliable.

We reiterated our prior year's recommendations, with modifications, that Management direct the Department Manager III, Finance Department, and the Chief Accountant to:

- a. Submit a valid explanation/justification for the non-application of tax credits in CAAP's income tax returns, and, considering the implication of the issue, clarify why no significant action was taken in CY 2023 to address the matter;
- b. Secure all BIR Form No. 2307 to support the balance in the WTaS account and immediately coordinate with the BIR to amend previously filed ITRs; and
- c. Moving forward, ensure proper monitoring of creditable withholding taxes in the WTaS account by requiring BIR Form No. 2307 as part of the supporting documents when recording creditable withholding tax.

The other observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on June 6, 2024, are presented in detail in Part II of the report.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:


EMMA V. MOISES
Director IV
Cluster Director

Copy furnished:

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