OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. The faithful representation of the *Property and Equipment* (PE) account balance of P57.156 billion could not be established due to unreconciled variances of records and non-recording of properties which are not in accordance with the provisions of Paragraph 15, Philippine Accounting Standards (PAS) No. 1.

1.1. Paragraph 15 of PAS 1 requires that financial statements 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 Conceptual Framework for Financial Reporting.

1.2. Analysis of PE accounts revealed the following deficiencies:

a) 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)

1.3. COA Circular No. 2020-006 provides guidelines and procedures in the conduct of physical count of PPE for the One-Time Cleansing of PPE account balances of government agencies.

1.4. Physical stock-taking, as provided in COA Circular No. 80-124, is an indispensable procedure for checking the integrity of property custodianship. In all cases, physical inventory taking needs to be regarded with importance.

1.5. The Report on the Physical Count of Property, Plant, and Equipment (RPCPPE) is the form used to report the physical count of the recorded PPE owned by the agency.

1.6. Comparison between the balances per books of accounts and RPCPPE showed a variance of P10.817 billion. Details are presented in Table 1.

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

Account	Location	Per books	RPCPPE	Variance
Land	HO	P 1,611,693,060	P 1,291,562,950	P 320,130,110
	AC II*	177,276,000	690,790	176,585,210
	AC V	1,642,559,163	1,172,565,478	469,993,685
	AC VI	6,449,151,150	6,629,708,250	180,557,100
	AC IX	3,530,090,091	3,586,672,091	56,582,000
	AC XI	5,866,060,329	6,944,851,929	1,078,791,600
Other Land Improvements	HO	39,681,829	35,273,039	4,408,790
	AC II*	9,832,500	0	9,832,500
	AC IV	287,639,328	287,639,328	0
	AC V	176,557,732	132,508,624	44,049,108
	AC VI	1,369,354,682	1,393,429,458	24,074,776
	AC IX	282,503,734	255,074,776	27,428,958
	AC XI	1,125,901,262	1,134,654,694	8,753,432

Account	Location	Per books	RPCPPE	Variance
Infrastructure Assets	HO	3,865,212,947	2,977,910,135	887,302,812
	AC II*	323,502,502	0	323,502,502
	AC IV	2,374,939,508	2,374,939,508	0
	AC V	2,325,172,654	1,448,629,011	876,543,642
	AC VI	6,738,836,670	6,870,368,080	131,531,410
	AC IX	1,975,046,877	1,910,717,151	64,329,725
	AC XI	4,490,905,005	4,487,310,753	3,594,252
Buildings and Other Structures	HO	2,131,060,293	1,249,552,843	881,507,450
	AC II*	29,721,181	87,832,000	58,110,819
	AC IV	1,211,065,611	1,211,065,611	0
	AC V	284,219,404	173,567,884	110,651,520
	AC VI	905,649,534	1,025,256,800	119,607,265
	AC IX	195,557,517	252,106,457	56,548,940
	AC XI	1,618,972,359	484,798,344	1,134,174,015
Machinery and Equipment	HO	1,982,167,748	294,701,903	1,687,465,845
	AC II*	18,235,024	33,775,576	15,540,551
	AC IV	614,402,701	806,511,939	192,109,239
	AC V	311,470,438	386,719,988	75,249,550
	AC VI	506,069,896	593,942,015	87,872,119
	AC IX	298,177,953	245,633,189	52,544,764
	AC XI	988,898,867	121,927,048	866,971,819
Transportation Equipment	HO	189,782,695	163,490,855	26,291,840
	AC II*	175,200	175,200	0
	AC IV	35,737,327	38,568,935	2,831,607
	AC V	8,639,290	6,997,522	1,641,767
	AC VI	20,429,895	637,184,393	616,754,498
	AC IX	11,070,509	9,853,095	1,217,414
	AC XI	22,467,364	46,188,198	23,720,834
Furniture and Fixtures	HO	7,982,802	578,065	7,404,737
	AC II*	196,788	569,500	372,712
	AC IV	1,340,457	1,340,457	0
	AC V	2,626,460	2,466,684	159,777
	AC VI	16,663,337	100,367,857	83,704,519
	AC IX	1,117,727	470,400	647,327
	AC XI	5,342,507	1,472,707	3,869,800
Other PPE	HO	2,670,829	20,799,913	18,129,084
	AC II*	0	0	0
	AC IV	869,212	869,212	0
	AC V	477,340	339,240	138,100
	AC VI	1,270,960	2,016,240	745,280
	AC IX	7,243,830	7,193,830	50,000
	AC XI	0	3,238,506	3,238,506
				P 10,817,263,315

**Balances were for Basco Airport.*

1.7. Verification of documents disclosed the following:

1.7.1. CAAP-Head Office (HO), Area Centers (ACs) II, IX, and XI had various properties found at stations without available records or lacked details such as costs and property numbers.

1.7.2. Various properties recorded in the books of accounts of CAAP-HO, ACs IV, V, IX, and XI were not recorded in RPCPPE and vice versa. The majority of these properties in CAAP-HO were acquired in CY 2008 and prior years.

1.7.3. During the physical inventory, it was found that AC VI's properties with an aggregate amount of P941.376 million were not recorded in the books, of which P677.485 million pertained to various equipment and furniture situated in Iloilo International Airport and Bacolod-Silay Airport. According to the Area Finance Officer, the costs reflected in the RPCPPE were not reliable; hence, they did not recognize the said properties in the books of accounts. It was also noted that there was no appropriate coordination between the Area Finance Officer and the Property Officer relative to the reclassification and derecognition from the books of accounts of various properties in AC VI.

1.7.4. Also, property items amounting to P21.454 million were not found at various locations in AC VI. Per confirmation with the Inventory Team, 38 property items had no corresponding cost while some properties were still under the accountability of retired and deceased employees which were not accounted for at the time of their retirement or death. Further inquiry disclosed other possible causes such as due to the undocumented movement/transfer of properties from one office/user to another and the inclusion of disposed of properties in the RPCPPE. Moreover, personnel from Antique, Kalibo, and Roxas Airports claimed that there were duplications of data in the inventory working paper of the Area Inventory Team.

1.7.5. Various misclassifications were noted in the accounting and supply records in both CAAP-HO and AC V. The RPCPPEs submitted by CAAP-HO lacked the RPCPPE for the *Power Supply System* account while RPCPPE for Naga and Virac Airports were not submitted.

1.8. The Authority is currently implementing CAAP-wide one-time cleansing activities. Based on the Inventory Activity Timelines dated November 16, 2023, the CAAP Inventory and Reconciliation Committee (CIRC) would reconcile the accounting and supply records with the RPCPPE starting in May 2024 and expected to be completed by September 2024.

1.9. Due to the unreconciled variance between the books of accounts and the RPCPPE, the PE account balance as of December 31, 2023, could not be relied upon.

1.10. 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;

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.

1.11. 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.

1.12. The Management of CAAP HO commented that the guidelines outlined in the COA Circular No. 2020-006, as adopted in the CAAP Memorandum for Physical Inventory Plan (PIP), were strictly implemented by CIRC during the one-time cleansing. The reconciliation of variances, determination of the value of PPE items, and necessary adjustments would be done after CAAP had completed the one-time cleansing activities.

1.13. While the Management of ACs II, IV, V, VI, IX, and XI committed to comply with COA Circular No. 2020-006 dated January 31, 2020, and the CAAP Memorandum dated December 28, 2023, regarding the Physical Inventory Plan (PIP) for the One-Time Cleansing of PPE Account Balance of CAAP.

1.14. On March 8, 2024, CIRC issued a memorandum extending the inventory-taking activities throughout the CAAP-HO and ACs due to various reasons. With this, the audit recommendations would be addressed once the one-time cleansing activities, which include the determination of the value of PPE items, recognition and disposition of properties, and reconciliation, are concluded.

1.15. ACs II, V, IX, and XI also committed to comply with the audit recommendations.

1.16. Management of AC VI could not yet send demand letters pending the identification of the accountable officers of those missing items.

1.17. The Audit Team from the CAAP-HO and ACs would continue monitoring the Authority's compliance with COA Circular No. 2020-006 and the CAAP Memorandum dated December 28, 2023.

b) Variance between General Ledger and Subsidiary Ledgers amounting to P112.328 million as of December 31, 2023

1.18. Paragraph 17 of PAS 1 on Presentation of Financial Statements emphasizes that achieving fair presentation requires an entity to present information in a manner that is relevant, reliable, comparable, and understandable.

1.19. The Subsidiary Ledger (SL) serves as a vital component of internal control for record-keeping, ensuring that its balance tallies with the balance of the corresponding General Ledger (GL) control account. It contains comprehensive information about individual accounts, facilitating effective tracking of financial data, hence, a properly maintained and continuously updated SL is necessary to ensure the accuracy and reliability of financial reporting.

1.20. Comparison between the balances of the GL and SLs for PE accounts disclosed a variance of P112.328 million. Details are presented in Table 2.

Table 2. GL and SL Balances

Account Title	Location	Per GL	Per SL	Variance
Property and Equipment	HO	P 80,683,054	P 80,519,228	P 163,826
	AC X	1,690,416,769	1,603,118,185	87,298,584
Accumulated Depreciation	HO	6,792,647	6,843,131	50,484
	AC X	1,349,237,367	1,324,421,914	24,815,453
				P 112,328,347

1.21. The Audit Team of CAAP-HO identified, and the CAAP-HO Accounting Division (AD) acknowledged, that the observed variances stemmed from transactions and adjustments dating back to prior years. The CAAP-HO AD commented that the reconciliation process for the abovementioned accounts was ongoing, necessitating the retrieval of documents to support any actions to be taken.

1.22. A local appraisal team was formed to comply with AC X's audit recommendations in CY 2022, and an initial physical count was conducted in CY 2023. However, it was observed that various PPE items were still not valued since the local appraiser team raised the concern that they could not assess the value of the items. As a result, various reports and other supporting documents lacked the necessary data/information to reconcile the balances.

1.23. Due to unreconciled variances between GL and SL balances and the absence of supporting documents, the balances of some items in the PE account as of December 31, 2023, were found to be unreliable and inaccurate.

1.24. 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.**

1.25. 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.

1.26. Management commented that CAAP HO AD was reconciling the remaining variance between the GL and the SLs.

1.27. Management of AC X, through the AC Accountant and Property Custodian, would verify and confirm with CAAP-HO for the proper recognition of properties found at the station, specifically land for which titles and other documents had not yet been processed.

c) Non-recording of properties resulted in an understatement of Land, Other PE, and Semi-Expendable Property by an undetermined amount

1.28. Paragraph Nos. 7 and 15 of PAS 16, Property, Plant and Equipment, provide that the cost of an item of property, plant, and equipment shall be recognized in the books of accounts if there is a probability that future economic benefit relative to the said item will redound to the entity and that its cost can be measured reliably.

Analysis of the account disclosed that various properties that were either purchased by the Authority, transferred by other government agencies, or found at the station with or without information as to cost or appraised value, were not recognized in the books of accounts of the Authority. Details are presented in Table 3.

Table 3. Details of Unrecorded Properties

Location	Amount	Remarks
CAAP-HO	Undetermined amount	Undetermined lot area of CAAP Administrative Compound, Manila Control Tower, CAAP Hangar, and Manila Radar
	Undetermined amount	61 units of firearms (Revolver, Jericho, Norinco, Mossberg, Remington, Carbine, SWSN, and Taurus)

1.29. The CAAP-HO Real Estate Titling – Task Force (RETTF) initiated efforts to collaborate with the Manila International Airport Authority (MIAA) to facilitate the transfer of title for lots currently occupied by the Civil Aviation Authority of the Philippines (CAAP) but registered to MIAA.

1.30. Moreover, during inventory-taking, the Audit Team noted that the Authority possessed a total of 61 firearms. However, despite inquiries to two firearms stores via phone calls and email, the CAAP-HO Supply Division (SD) was not able to obtain documents to support the acquisition cost or appraised value for these firearms.

1.31. As a result, the parcels of land for CAAP-HO and the 61 units of firearms remained unrecognized in the books of accounts.

1.32. The non-recognition of the properties presented in Table 3 above, understated the *Land; Other Property, Plant, and Equipment, Accumulated Depreciation, Depreciation Expense*, and *Semi-expendable Property*, by an undetermined amount.

1.33. 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;

b. Instruct the CAAP-HO SD and AD to obtain the necessary documentation to substantiate the acquisition of firearms and determine their cost. If necessary, initiate an appraisal process to assess their value. Accordingly, instruct the AD to accurately record the firearms in the books of accounts; and

c. Direct the CAAP-HO AD to make the necessary adjustments to reflect the correct balances of the accounts in the financial statements.

1.34. CAAP-HO AMD commented that a new MOA was drafted for MIAA properties occupied by CAAP. The said memorandum would be presented to the CAAP Board of Directors for their feedback.

1.35. CAAP-HO AMD further stated that the appraisal of CAAP properties nationwide is expected to commence once the contract for the hiring of an appraiser to conduct the 2024 Valuation of CAAP properties and assets will be awarded to the winning bidder in CY 2024, in accordance with relevant governing rules.

1.36. The CAAP-HO SD made efforts to recover the supporting documents for the firearms, but these documents may have been irreversibly lost over time. Hence, CAAP-HO SD had decided to resort to appraisal. CAAP-HO AD will record the cost of the firearms once the valuation has been provided.

1.37. The CAAP-HO Audit Team will monitor Management's implementation of the audit recommendations.

2. The faithful representation of the carrying amounts of the *Accounts Receivable* (AR) and *Operating Lease Receivable* (OLR) accounts in the amount of P3.906 billion and P308.477 million, respectively, could not be ascertained due to the existence of past due accounts; inadequate allowance for impairment/expected credit losses; unreconciled variances; and unconfirmed balances contrary to Paragraph 15, PAS 1.

2.1. Paragraph 15 of PAS 1 requires that financial statements 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 Conceptual Framework for Financial Reporting.

2.2. The AR account of the Authority pertains mainly to Air Navigational Charges (ANCs) imposed on airline operators for the use of communication facilities owned by CAAP. On the other hand, the OLR account refers to the amount due from concessionaires in CAAP-operated airports.

2.3. Analysis of the account disclosed the following:

a) Existence of past due accounts of P3.266 billion or 51.56 per cent of the receivable balance per SL/Aging Reports

2.4. This is a reiteration of the audit observation embodied in CYs 2016-2022 AARs.

2.5. CAAP Memorandum Circular No. 018-2023 dated November 16, 2023, amending CAAP MC No. 03-11 re: *Schedule of Fees and Charges for Air Navigation Services* provides that ANCs shall be collected within 15 days upon receipt of billing statements. Delayed payments shall be subject to an interest rate of 12 per cent per annum.

2.6. In addition, COA Circular No. 2023-008 dated August 17, 2023, prescribes the *Guidelines on the Proper Disposition of Dormant Accounts xxx of Government Corporations (GCs)*. Paragraph 5.7 thereof defines "Dormant Receivable Accounts – accounts whose balances remained inactive or non-moving in the books of accounts for 10 years or more and where settlement/collectability could no longer be ascertained."

2.7. Review of the Aging of Accounts Receivable of CAAP-HO as of December 31, 2023, showed the following:

Table 4. Report on Aging of AR/OLR (SL) as of December 31, 2023
(amounts in millions)

			Past due accounts			
	Total (SL Balances)	**Current Accounts**	**Non-Current accounts**	**ATO Balances**	**Uncollected PAL accounts**	**Total Past due**
CAAP-HO	P 4,207.506	*P 2,378.147	P 406.296	P 100.207	P 1,322.856	P 1,829.359
AC I	40.706	20.288	8.880	11.538	0	20.418
AC II	40.100	20.428	18.616	1.056	0	19.672
AC III	49.635	10.196	26.817	12.621	0	39.438
AC IV	73.061	51.903	21.158	0	0	21.158
AC V	51.679	33.758	12.427	5.494	0	17.921
AC VI	591.923	183.579	401.868	6.476	0	408.344
AC VII	158.280	83.542	55.492	19.246	0	74.738
AC VIII	122.568	44.823	77.745	0	0	77.745
AC IX	124.818	33.140	91.677	0	0	91.677
AC X	194.371	71.990	114.255	8.127	0	122.382
AC XI	656.719	125.329	460.615	70.775	0	531.390
AC XII	22.948	10.906	12.042	0	0	12.042
AC Total	2,126.809	689.881	1,301.594	135.333	0	1,436.927
	P 6,334.315	**P 3,068.028**	**P 1,707.890**	**P 235.540**	**P 1,322.856**	**P 3,266.286**
Percentage	**100.00%**	**48.44%**	26.96%	3.72%	20.88%	**51.56%**

**Inclusive of the accrual of income from Transportation System Fees and Communication Network Fees accounts aggregating P180.288 million & P11.428 million, respectively.*

2.8. Analysis of the aging schedule disclosed that a significant portion of receivables, amounting to P3.266 billion or 51.56 per cent of the P6.334 billion receivables remained unsettled for over one year to more than 10 years. It included the uncollected receivables of the defunct Air Transportation Office (ATO) amounting to P235.540 million carried over to CAAP's books of accounts in CY 2008, without supporting documentation. It also included past due accounts from inactive or non-operational airline companies and concessionaires whose records were incomplete to substantiate the receivable balances under Area Centers (ACs) I, II, III, V, VI, VII, X, and XI. Thus, the probability of collection was remote.

2.9. The P1.323 billion or 20.88 per cent of the total receivable balances pertained to the under-collection of accounts following a compromise agreement between CAAP and Philippine Airlines (PAL) dated October 6, 2017. While CAAP accepted PAL's final proposal in 2017 to settle its outstanding obligations, efforts to enforce collection of the shortfall through a demand letter in June 2022 were hindered by the Accounting Division's (AD) delay in retrieving the pertinent documents to substantiate the amount demanded. Management had considered requesting authority to write off these accounts in accordance with COA Circular No. 2023-008.

2.10. Meanwhile, full provisions for the allowance for impairment for both ATO and PAL accounts were recorded in the books of accounts.

2.11. On November 16, 2023, this Authority amended CAAP MC No. 03-11 series of 2011 re: *Schedule of Fees and Charges for Air Navigation Services* through the issuance of CAAP Memorandum Circular No. 018-2023. The prescribed number of days for the collection upon receipt of billings was adjusted from 10 to 15 days, while the imposition of an interest rate of 12 per cent per annum for payments made after the collection period was also explicitly cited. In case of non-payment, the following procedures and remedies were outlined: 1.) rejection of flight plans; 2.) denial of the use of facilities and services;

3.) suspension of certificates and other licenses issued by the Authority; and 4.) enforcement of lien against properties of the debtor.

2.12. As part of the implementation of the prior year's audit recommendations, the CAAP-HO AD issued demand letters and Collection Notices/Statements of Accounts (SOA) in the aggregate amount of P4.273 billion from February 2023 to February 2024. The Philippine Air Asia Inc. (PAA) responded by issuing post-dated checks (PDCs) for their total outstanding balance of P1.145 billion as of November 2022. As of December 31, 2023, PDCs with an aggregate amount of P1.321 billion had been cleared and applied to their outstanding payables, thereby substantially reducing the consolidated receivable balance from PAA to P402.122 million as of year-end.

2.13. As a result of Management's collection efforts, CAAP-HO collected an aggregate amount of P5.285 billion in receivables in CY 2023, including P1.724 billion from past-due accounts as of December 31, 2023. Despite these efforts, CAAP's long outstanding accounts remained substantial. The material amount of past due accounts exposed the Authority to liquidity risk and reduced the amount of funds that could have been used in its operations.

2.14. We recommended that Management instruct the *Accounting Division* in CAAP-HO and all Area Centers to:

a. Intensify efforts to promptly issue monthly Statement of Accounts (SOA) and/or Collection Notices to all air operators/airline companies, detailing current billings and arrearages. Continuously send demand letters to delinquent clients to ensure timely payment;

b. Enforce diligently updated policies and procedures for collection, adhering strictly to the guidelines provided in CAAP Memorandum Circular No. 018-2023. Implement penalties and surcharges at a rate of 12 per cent per annum on all delinquent accounts;

c. Exert diligent efforts to locate all necessary supporting documents essential for verifying the existence and validity of long-outstanding and dormant receivables. Exhaust all available remedies to collect these outstanding amounts; and

d. Evaluate the dormant accounts and request authority to write them off, if warranted, in accordance with COA Circular No. 2023-008.

2.15. Management commented that they had been exerting efforts to collect outstanding and long overdue receivables. Relatively, a significant amount of these long outstanding receivables was collected in CY 2023. They noted an improvement in the collection of receivables, particularly for Air Navigation Charges, attributable to the imposition of 12 per cent interest as penalty for late payments as provided under CAAP Memorandum Circular No. 028-2023.

2.16. Management informed that the Accounting Division had been trying to locate pertinent documents. However, 95 per cent of the account balance consisted of transactions forwarded from the then Air Transportation Office (ATO), making it difficult to find the necessary documents.

2.17. The Finance Team was validating the list of dormant accounts to finalize those to be recommended for write-off.

b) Inadequate allowance for impairment/expected credit losses based on the requirements of PFRS 9

2.18. This is a reiteration, with modification, of the audit observation embodied in the CY 2022 AAR.

2.19. Paragraph Nos. 5.2 and 5.2.1. of PFRS 9, *Financial Instruments* provide that after initial recognition, financial instruments shall be measured at amortized cost or fair value (through profit or loss or other comprehensive income), depending on the classification by reference to the business model within which these were held and its contractual cash flow characteristics. The standard also provides that an entity should apply the impairment requirements in Section 5.5, Recognition of Expected Credit Losses (ECL) to these financial assets.

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

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

2.22. However, verification revealed that while 100 per cent impairment loss was provided for ATO dormant receivable balances and uncollected PAL accounts, the percentages used for computing impairment losses on past-due accounts were deemed relatively low. Current accounts were subjected to impairment rates ranging from two to three per cent, while past-due accounts incurred a uniform rate of five per cent.

2.23. The significant increase in credit risks, the time value of money, and other factors that could affect the future cash flows that the Authority expected to receive were not taken into consideration in the applied uniform rate of five per cent on past due accounts for over one to three years and onwards, from July 2008 to December 2022. Thus, the *Allowance for Impairment/Expected Credit Loss* amounting to P1.735 billion was deemed inadequate. As a result, the accuracy of the *Accounts Receivable* (AR) & *Operating Lease Receivable*

(OLR) account balance of P5.950 billion with a carrying value of P4.215 billion as of December 31, 2023, could not be ascertained.

2.24. On August 8, 2023, CAAP conducted an in-house seminar on PFRS 9 *Financial Instruments*, which extensively covered the application of the ECL approach. However, the CAAP-HO AD claimed that due to anticipated challenges and difficulties in the computation of ECL, compounded by the non-completion of a detailed review and evaluation of the Authority's receivables portfolio, the reasonable estimate of impairment based on the requirements of PFRS 9 could not be done yet.

2.25. We reiterated our previous year's recommendations, with modification, and Management agreed that the CAAP-HO Accounting Division:

a. Adhere to the impairment requirements of PFRS 9 on the recognition and measurement of ECL 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.

2.26. Management informed that some Accounting personnel would attend another training on PFRS 9 to properly evaluate CAAP's receivables and calculate the ECL. Following the training, the recognition and measurement of ECL would be incorporated into CAAP's Accounting Policy.

c) 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)

2.27. This is a reiteration of the audit observation embodied in CYs 2016-2022 AARs.

2.28. Comparison between GL and SL balances disclosed a variance of P344.790 million, as shown in Table 5.

Table 5. Variance between GL and SL balances of AR/OLR as of December 31, 2023
(Amounts in Millions)

	Accounts Receivable (AR)			Operating Lease Receivables (OLR)			
Location	**GL Balance**	**SL Balance**	**Variance (Absolute Value)**	**GL Balance**	**SL Balance**	**Variance (Absolute Value)**	**Variance (Absolute Value)**
CAAP-HO	P4,039.003	P4,096.550	P 57.548	P 3.562	P 4.098	P 0.536	P 58.084
AC I	37.529	37.510	0.019	3.178	3.178	0.00	0.019
AC II	37.256	37.256	0	2.815	2.815	0.00	0.00
AC III	45.588	40.208	5.380	9.501	9.390	0.110	5.490
AC IV	63.329	59.096	4.232	21.147	13.793	7.355	11.587
AC V	30.916	30.916	0	20.723	20.723	0	0
AC VI	592.578	591.767	0.811	0	0	0	0.811
AC VII	127.391	130.754	3.363	25.893	27.125	1.232	4.595

Location	Accounts Receivable (AR) GL Balance	SL Balance	Variance (Absolute Value)	Operating Lease Receivables (OLR) GL Balance	SL Balance	Variance (Absolute Value)	Variance (Absolute Value)
AC VIII	86.496	117.840	31.344	4.830	4.593	0.237	31.581
AC IX	103.669	109.388	5.719	15.981	15.303	0.678	6.397
AC X	74.556	148.891	74.334	66.867	45.305	21.562	95.897
AC XI	342.934	505.340	162.406	173.710	150.623	23.087	185.493
AC XII	16.268	15.994	0.274	4.167	6.814	2.648	2.922
			P 287.882			**P 56.909**	**P 344.790**

Note: SL balances from Aging Reports were presented net of unrealized forex losses per translation/revaluation of year-end balance of foreign-denominated receivables. The variance is presented at Absolute Value

2.29. In CYs 2020-2021, the variance in CAAP-HO was attributed mainly to the payments made by unidentified payors who were mostly international and/or foreign-based airline companies. The payments made through telegraphic/bank transfers were already recorded in GL but not posted to their respective SLs due to the absence of details of the payor/remitter as well as the billing references. In CY 2022-2023, details of some remittances were already known and adjustments were effected accordingly. The remaining unidentified remittances were reclassified under *Undistributed Collections* account which had a balance of P1.267 billion as of December 31, 2023.

2.30. Verification revealed that the sudden increase in the GL balance of AR of CAAP-HO in CY 2023, which also resulted in a substantial decrease in variance, could be attributed to the various reversals/adjustments made in the recording of identified collections from the *Undistributed Collections* account. The reconciliation process was ongoing to determine the other underlying causes of the remaining variance between records.

2.31. In ACs III, IV, V, VII, IX, and X the variances between GL and SL balances likewise existed due to the following: 1.) absence of supporting documents brought about by transfer of office location; 2.) ATO balances carried in the books of accounts of CAAP without documentation and proper turn-over; 3.) difficulties encountered in retrieving documents or unavailability of records from prior years' transactions; 4.) lack of personnel to conduct the reconciliation; and 5.) improper turnover of accounting records from the previous personnel-in-charge.

2.32. Nevertheless, due to the remaining material amount of variance noted between the balances of GL and SLs/Report of Aging of Receivables, the accuracy and reliability of the *Accounts Receivable* balance as of December 31, 2023, could not be ascertained.

2.33. 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.

2.34. Management commented that there was a significant reduction in GL and SL variances, from P1.08 billion in CY 2021 to P53.28 million as of December 31, 2023, due to ongoing analysis and reconciliation of receivable accounts.

d) Variance of P579 million between the accounting records and the amount confirmed by 40 airline companies, and the unconfirmed balance of P1.168 billion in CAAP-HO

2.35. The qualitative characteristics of useful financial information under the *Conceptual Framework* of the PFRS are relevance and faithful representation. The usefulness of the financial information is enhanced if it is comparable, verifiable, timely, and understandable.

2.36. Confirmation letters were sent out to 112 selected debtors in the CAAP-HO, and the results were as follows:

Table 6. Summary of Results of Confirmation

Particulars	**No. of Debtors**	**SL Balance as of December 31, 2023**	**Per Confirmation**	**Variance/ Unconfirmed Balance**
SL balance > amount confirmed	34	P 1,206,877,147	P 637,193,078	P 569,684,069
SL balance < amount confirmed	6	47,622,421	56,887,820	9,265,399
With confirmation	**40**	**1,254,499,568**	**694,080,898**	**578,949,468**
Without confirmation	72	1,168,411,965	No Reply	**1,168,411,965**
	112	**P 2,422,911,533**		

2.37. Analysis showed an aggregate amount of P1.168 billion in receivable balances that clients did not confirm. Out of the 112 selected debtors, only 40 replied, but the results showed a total variance of P579 million between the accounting records and the amount confirmed.

2.38. The variance between the SL balances and the amount confirmed was primarily due to unidentified/unposted collections. These payments were not promptly recorded in the SL until the payor/remitter details and billing reference numbers were identified.

2.39. Some clients opted to directly deposit, remit, or transfer payments to CAAP's depository bank without notifying the Authority or providing payment details. Despite clear instructions on the face of the revised billing statement template, several clients remained non-compliant in submitting proof of remittance and billing details.

2.40. Furthermore, consistent with previous audits, most confirmed balances pertained only to records of the airline operators' current ground handlers. These handlers acted as representatives of international airline companies for operations/services in the Philippines. However, as ground handlers frequently change, unreconciled balances from previous handlers accumulate over time, contributing to a substantial amount of variance upon confirmation.

2.41. The CAAP-HO AD raised various concerns and issues to the Regulatory Standards Department (RSD) of the Flight Standards Inspectorate Service (FSIS). In a letter dated December 21, 2023, the CAAP-HO AD outlined several key points: a.) confusion as to whom the invoices shall be sent as some of the airline operators want to course it through their ground handlers; b.) confusion as to whom the outstanding balances shall be collected when the airline operator already paid the amount due to the ground handlers and yet remained unremitted to CAAP; and c.) ground handlers' requests for refunds from CAAP when they could not collect from the airlines' operators the amount they paid in advance on their behalf.

2.42. Without a clear-cut policy governing ground handlers' operations and defining responsibilities among parties, unreconciled/uncollected receivable balances continuously accumulated in CAAP's books of accounts. The Revenue Section faced challenges in reconciling and enforcing the collection of these outstanding balances. The CAAP-HO AD awaited Management's resolution of these issues.

2.43. A well-defined plan aimed at addressing outstanding receivable balances from previous years could have facilitated the billing and collection process. The funds collected therefrom could be used by CAAP in the performance of its mandate.

2.44. We recommended that Management instruct the Accounting Division in CAAP-HO to:

a. Designate dedicated personnel who would coordinate directly with the clients/airline companies for the reconciliation of balances between CAAP and the clients' records; take up the necessary adjustments in the books of accounts, if warranted, and furnish the Audit Team with the results of reconciliation made; and

b. Continuously pursue the coordination efforts initiated with the Regulatory Standards Department (RSD) of the Flight Standards Inspectorate Service (FSIS) to develop a concrete plan for inclusion in the billing and collection policy to address the persistent challenge of reconciling and collecting outstanding receivable balances from previous years, particularly on flights previously handled by the operators' former ground handlers.

2.45. Management commented that Finance and HRMD coordinated to hire additional staff who will handle the reconciliation of the accounts, essential for the upcoming automation.

2.46. The Finance Team continuously coordinated with FSIS and other departments to resolve issues and streamline Accounting processes.

3. 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.

3.1. Input taxes pertain to VAT on goods and services CAAP had procured. These input taxes are offset against output taxes, resulting in either VAT Payable if output taxes exceeded input taxes, or creditable input taxes if vice versa. To support the filing of VAT returns, taxpayers must submit to the BIR the

Summary Listing of Sales and Purchases (SLSP) which requires, among others, the BIR-registered name of the buyer or supplier, Tax Identification Number, nature and amount of sales or purchase, and the amount of VAT or creditable input VAT for the transaction.

3.2. After the VAT payable or creditable input taxes in a given period are recognized, the balance in the *Input Tax* account would be comprised only of input taxes on unpaid goods and services purchased by CAAP.

3.3. As of December 31, 2023, the *Input Tax* account balance stood at P269.582 million. On the other hand, based on the Schedule of Accounts Payable in CAAP, input taxes relative to unpaid goods and services as of year-end amounted only to P58.911 million, which showed a considerable difference of P210.671 million or 78.15 per cent of the balance of the account.

3.4. The Audit Team observed that the Accounting Division in CAAP-HO did not maintain SLs or any supporting schedule for the account. The lack of any schedule to support the *Input Tax* account, along with the significant variance between the recorded input tax and the input tax in the *Accounts Payable* account cast doubt as to its accuracy and verifiability, which rendered the account balance unreliable.

3.5. We emphasized that input taxes represent an amount CAAP can use to offset its VAT obligations to the BIR. Therefore, careful monitoring of the account balance is essential. Likewise, it is crucial to ensure that all necessary information relative to these input taxes is readily available for the preparation of the SLSP.

3.6. We recommended that Management instruct the Accounting Division to:

a. 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;

b. 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; and

c. Ensure the proper and continuous maintenance of the SLs or supporting schedule.

3.7. Management commented that the Accounting Division has already designated an employee who will prepare the Subsidiary Ledgers (SLs) for the account and reconcile the balance with the General Ledger (GL).

3.8. The Audit Team reminded Management that the issue with the account is not only due to the lack of supporting schedules but also due to the variance between the balance per GL and the amount of input tax accounted for in the *Accounts Payable* account. Hence, in addition to maintaining SLs, we reiterate our recommendation for Management to reconcile the balance in the *Input Tax* account with the input tax recorded in the *Accounts Payable* account and to prepare the necessary Journal Entry Voucher to rectify any variance.

4. 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, b) unrecorded inventory issuances, and c) non-recognition of Allowance for Impairment.

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

4.2. As of December 31, 2023, the Authority's Inventory accounts had an aggregate carrying amount of P138.194 million. Audit of the accounts disclosed numerous deficiencies which rendered the account unreliable. Details are as follows:

a) Unreconciled variance between accounting records and the RPCI and RPCSP amounting to P47.193 million

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

4.4. Similarly, Section 10.1.11 of the same guideline requires Management to establish physical controls to secure and safeguard vulnerable assets, such as cash, securities, inventories, and equipment. The guideline emphasizes the importance of periodically counting these assets and comparing the same with control records.

4.5. Various records are necessary to safeguard and account for inventories. The RPCI and RPCSP are forms used to report the result of the physical count of inventory items and to support management's assertion of the existence of inventories. Meanwhile, Stock Cards (SCs), Semi-expendable Property Cards (SPCs), Supplies Ledger Cards (SLCs) and Semi-expendable Property Ledger Cards (SPLCs) are forms used by the Supply Division and Accounting Division to account for the receipt and issuance of every type of supply. The result of the physical count, as contained in the RPCI and RPCSP, needs to be periodically reconciled with the SCs, SPCs, SLCs, and SPLCs and any variance to be immediately verified to faithfully represent in the financial statements the actual state and condition of the inventory in accordance with PAS 1.

4.6. As of December 31, 2023, the physical count of inventories in CAAP-HO and AC VI showed a variance of P47.193 million between GL and RPCI/RPCSP. Details are shown in Table 7.

Table 7. Variance Between GL and RPCI/RPCSP as of December 31, 2023

Location	GL	RPCI/RPCSP	Variance
CAAP-HO	P 44,701,837	P 7,025,090	P 37,676,747
Area Center VI	16,528,326	7,011,705	9,516,621
	P 61,230,163	**P14,036,795**	**P 47,193,368**

4.7. The variance between accounting and property records has been a yearly observation since CY 2018 and has yet to be resolved by CAAP.

4.8. In CAAP-HO, the Audit Team observed that Management did not reconcile the result of the physical count with the SCs, SPCs, SLCs, and SPLCs contrary to the above-mentioned guidelines.

4.9. The Supply and Accounting Division explained that they did not verify/validate the result of the count as they were having a hard time retrieving relevant records to initiate the reconciliation. However, we noted that no reconciliation took place even on recent accounts where information was readily available to both Divisions. We observed that various inventories under the Semi-expendable Furniture and Fixtures, Semi-expendable Office Equipment, and Other Supplies and Materials Inventory accounts amounting to P265,179, P212,500, and P192,750, respectively, were received in 2023 but were only accepted and issued in January 2024, however, these inventories were already recorded in the books of accounts as of December 31, 2023. This issue, which arose from very recent transactions, could have been easily detected had CAAP reconciled its records.

4.10. In AC VI, the audit disclosed that the inventory committee did not count the Accountable Forms, Plates, and Stickers Inventory which significantly contributed to the variance. Further, we noted that, despite the inclusion of inventories stored in Antique Airport and Iloilo International Airport in the submitted RPCI and RPCSP, not all types of inventories were counted in the aforementioned airports.

4.11. In ACs V, IX, and XII, while no variances between the GLs and the RPCIs were reported, we observed incomplete submission of RPCIs and RPCSPs and the non-conduct of physical count in various airports.

4.12. Further, we noted that CAAP-HO, ACs V and IX did not completely prepare and maintain SCs, SPCs, SLCs, and SPLCs. These records are essential in the conduct of reconciliation, as they provide detailed information on deliveries and issuances of each type of inventory.

4.13. The Accounting Division was responsible for preparing and maintaining the books of accounts, while the Supply Division handled storage control, distribution of supplies and equipment, and maintaining records of property accountabilities of CAAP officers and employees. Both divisions in CAAP-HO did not initiate reconciliation to validate the cause of the variance between their records and the results of the physical count, despite their representatives being present during the count and aware that their respective records did not tally with other control records.

4.14. Conducting physical count and maintaining appropriate control records are essential procedures in the accurate accounting of inventories in the books of accounts. Likewise, we emphasized that the reconciliation of the result of the physical count with control records is an integral part of inventory taking; without it, the physical count is pointless and could be deemed a waste of resources.

b) Issuances of various inventories remained unrecorded in the books.

4.15. In CAAP-HO, we observed that, despite prior years' observations, utilization for CY 2017 to CY 2018 of the *Fuel, Oil, Lubricants Inventory* (FOLI) had yet to be recorded in the books of accounts of CAAP. The Accounting Division explained that they were still in the process of retrieving the records for CY 2017 and CY 2018, which they found very challenging considering that the transactions happened several years ago and that records at that time were not kept and maintained properly.

4.16. Similar to the first issue, the non-recording of the utilization of inventories could have been easily identified and prevented had CAAP conducted regular reconciliation of its accounting and property records.

c) Non-recognition of allowance for impairment for obsolete and non-existing inventories resulted in the overstatement of the inventory account

4.17. Paragraph 28 of PAS 2 on *Inventories* states that inventories shall be measured at the lower of cost and its net realizable value. Further, Paragraph 6 of the same standard defines net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4.18. Additionally, as defined in Annex C of COA Circular No. 2020-002 dated January 28, 2020, on the adoption of the revised chart of accounts for government corporations, the Allowance for Impairment accounts for inventories are used to recognize any initial or subsequent write-down of inventory accounts due to fortuitous events, pests, and other similar infestations.

4.19. As of December 31, 2023, the carrying amount of inventories had an aggregate amount of P138.194 million. On the other hand, the cost of inventories, as contained in the RPCI and RPCSP, albeit unreconciled, amounted only to P91 million. The significant difference amounting to P47.193 million highlighted that the recorded balance in the books of accounts of CAAP far exceeded its net realizable value contrary to PAS 2.

4.20. Additionally, we noted the existence of obsolete accountable forms amounting to P0.524 million in AC VI. The accountable forms were rendered unusable due to termite infestations.

4.21. The non-recognition of impairment loss to write down inventories to their net realizable value was contrary to PAS 2, thereby overstating the inventory accounts' balance.

4.22. We emphasized that the write-down of inventories to their net realizable value did not absolve property custodians of their responsibility to safeguard the assets of CAAP. Hence, Management needs to look into the cause of the variance and if the evidence supports any theft, loss, and/or misuse of inventories, to deal with the issue in accordance with existing laws, rules, and regulations.

4.23. We recommended that Management:

4.24. For CAAP-HO, ACs V, VI, IX and 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 RSMIs, supported by duly accomplished Requisition and Issue Slips.

4.25. 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.

4.26. 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.

4.27. The CAAP Management committed to comply with all the recommendations. However, relative to the retrieval of records necessary for the recording of the utilization of FOLI in CAAP-HO, the Accounting Division reasoned that they had already exerted all efforts to retrieve relevant records, however, no records were found. They added that an allowance for impairment was recorded for the balance.

4.28. Additionally, Management in AC V explained that they only started conducting inventory counts in the satellite airports in CY 2017, hence, reconciliation of accounts is difficult.

4.29. For CAAP-HO, while we acknowledge the efforts of the Accounting Division in reconciling its records with the Supply Division to finally record the utilization of FOLI for CY 2019 and onwards, we recommended that they also coordinate with the Air Navigation Service (ANS) and Flight Inspection and Calibration Group (FICG) for the reconciliation of the FOLI account as they are offices directly responsible for its utilization.

4.30. We would also like to stress that the recording of allowance for impairment does not negate the responsibility of property custodians of their responsibility to safeguard the assets of CAAP. Hence, Management needs to look into the cause of the variance and if evidence supports any theft, loss, and/or misuse of inventories, CAAP needs to deal with the issue in accordance with existing laws, rules, and regulations.

4.31. For AC V, despite the difficulty, the Accounting Section of Area V and the Supply Office of various Satellite Airports have to reconcile their records to come up with reliable and accurate records of inventories.

5. The accuracy and reliability of the balances in the *Leave Benefits Payable* account for CAAP-HO and AC VI, with an aggregate amount of P487.835 million, could not be ascertained due to deficiencies in maintaining the leave cards of its officers and employees.

5.1. PAS 37 re: Provisions, Contingent Liabilities, and Contingent Assets defines provisions as liabilities of uncertain timing or amount. Paragraph 14 of the Standard states that provisions are recognized in the books of accounts when: an entity has a present obligation, legal or constructive, as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and, a reliable estimate can be made of the amount of the obligation.

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

5.3. The Schedule of Leave Balances is the Accounting Division's primary reference when recording provisions for leave benefits under the *Leave Benefits Payable* account. Employee leave cards and approved leave forms had to support this schedule. As of December 31, 2023, the *Leave Benefits Payable* account balance for CAAP-HO and AC VI stood at P383.329 million and P104.506 million, respectively.

5.4. Audit of employees' leave cards disclosed several deficiencies, as follows:

- Various arithmetic errors in the addition of leave credits earned and the subtraction of monetized/utilized leave credits;
- Incorrect or non-posting of late/undertime of employees;
- Incorrect or non-posting of leave credits earned;
- Incorrect or non-posting of leaves utilized;
- Incorrect or non-posting of forfeited forced/mandatory leaves; and
- Non-posting of leave monetization.

5.5. In CAAP-HO, the Audit Team randomly selected 80 leave cards, approximately 8.28 per cent of the total number of leave cards. The audit noted the aforementioned issues on 63 or 77.50 per cent of the leave cards reviewed. The erroneous updating of leave cards resulted in the overstatement of the *Terminal Leave Benefits* and *Leave Benefits Payable* accounts amounting to P196,097. Although this amount may seem insignificant compared to the aggregate amount of account balance, the Audit Team emphasized that this amount represents the monetary value of leave benefits and valid claims of employees in case of retirement. Based on the review, there were instances where leave credits reflected on the leave cards were either understated by 30 days or overstated by as much as 33 days equivalent to a 77.50 per cent error rate. Considering that the reviewed leave cards represented 8.28 per cent of the total employees' leave cards, it showed that the majority of the leave cards in CAAP-HO were not properly maintained which in turn, may have a significant impact on the *Terminal Leave Benefits* and *Leave Benefits Payable* accounts.

5.6. Audit further indicated that the HRMD in CAAP-HO lacked sufficient internal controls to ensure the accuracy of the leave cards. There was no established process for the regular updating and reconciliation of leave cards. Leave cards were only updated when an employee filed for leave resulting in unposted additions and deductions. This issue was highlighted between 2017 and 2019 when CAAP-HO processed and paid requests for monetization of leave credits with an aggregate amount of P122,491 for three personnel despite insufficient leave credits. Although the leave balances in their respective requests for monetization of leave credits appeared sufficient, this was due to the arithmetical errors in the computation of their remaining leave credits. Once corrected, the leave cards showed that these personnel did not have sufficient leave credits for monetization at the time of filing. At present, despite the irregular monetization of their leave credits, these personnel already had overall positive leave credits as of December 31, 2023.

5.7. In AC VI, aside from the aforementioned arithmetical errors and non-posting of earned or unutilized leave credits, the Audit Team observed that the Daily Time Records and relevant leave forms of employees at Evelio B. Javier Airport for CY 2023 were not submitted to the HRMD. Hence, the accuracy and reliability of their respective leave credits, as recorded in the books of accounts, could not be verified.

5.8. The numerous errors noted in the leave cards and the lack of internal controls in maintaining leave cards cast doubt on the reliability and accuracy of the *Leave Benefits Payable* account in CAAP-HO and AC VI with an aggregate amount of P487.835 million.

5.9. We recommended and Management agreed to direct:

a. CAAP-HO and AC VI HRMD to initiate and prioritize the reconciliation of records between the HRMD and all CAAP employees to correct the balances in the leave cards, and submit a duly reconciled schedule of leave balances to the Audit Team and the Accounting Division;

b. CAAP-HO:

i. HRMD to revisit its process for updating and maintaining leave cards. Ensure that the revised process will include the regular updating of leave cards and other internal control measures as approved by the Internal Audit Service, to ensure timely and accurate updating of leave cards. Submit a copy of the revised process to the Audit Team; and

ii. The Chief Accountant to adjust the *Leave Benefits Payable* account balance based on the reconciled balances of leave credits of employees to be submitted by the HRMD.

c. AC VI:

i. EBJ Airport Finance to submit the DTRs of its employees from January 2023 - December 2023 to CAAP AC VI Accounting Unit; and

ii. HRMD to prepare a summary of leave balances for all employees at the end of the year, duly attested by the employees.

5.10. The Management of CAAP-HO and AC VI assured the Audit Team that they would implement the audit recommendations.

5.11. The HRMD of CAAP-HO added that they have reviewed and updated their process for maintaining leave cards to address the issues noted by the Audit

Team. This revised process will be endorsed to the IAS for comments. They further said that the reconciliation of leave card balances is ongoing.

5.12. The Accounting Division of CAAP-HO also committed to adjust the *Leave Benefits Payable* account once the HRMD submits the reconciled balance.

5.13. AC VI Management also agreed to prepare and submit the Schedule of Leave Balances for all satellite airports to the finance officer as a reference for recording the provision for *Leave Benefits Payable* at year-end. They also committed to monitoring strictly the posting of leaves in individual leave cards to ensure that errors are avoided.

6. The existence of dormant asset accounts with a carrying amount of P108.955 million and dormant liability accounts amounting to P80.860 million and the inadequate allowance for impairment related thereto were contrary to Philippine Accounting Standards (PAS) 1 and Philippine Financial Reporting Standard (PFRS) 9.

6.1. Paragraph 15 of PAS 1 on *Presentation of Financial Statements* states, among others, 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 Conceptual Framework for Financial Reporting.

6.2. Meanwhile, Philippine Financial Reporting Standard (PFRS) 9 on *Financial Instruments* provides that an entity shall recognize loss allowance for expected credit losses on a financial asset. Expected credit losses are the present value of estimated shortfalls over the period of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

6.3. Additionally, COA Circular No. 2023-008 dated August 17, 2023, defines dormant accounts as "individual or group of account balances within the general ledger account, which remained non-moving/no activity for 10 years or more from the last transaction recorded in the books."

6.4. As of December 31, 2023, the Audit Team observed dormant asset and liability accounts within the books of accounts of CAAP with carrying amount of P108.955 million and P80.860 million, respectively. Details are shown in Table 8.

Table 8. Summary of Dormant Accounts of CAAP as of December 31, 2023

Account Title	Amount	Allowance for Impairment	Carrying amount
Assets			
Accounts Receivable	P 1,586,048,502	P 1,533,283,160	P 52,765,342
Operating Lease Receivable	38,720,315	33,586,329	5,133,986
Due from National Government Agencies	30,005,419	29,975,419	30,000
Due from LGU	4,930,170	4,930,170	0
Other Receivables	38,482,481	9,376,734	29,105,748
Advances to Officers and Employees	21,516	0	21,516
Advances to Contractors	3,566,129	0	3,566,129
Deposit on Letters of Credit	18,332,140	0	18,332,140
Other Assets	2,167,477,213	2,167,477,213	0
	P 3,887,583,885	**P 3,778,629,025**	**108,954,861**
Liabilities			
Due to NGAs	P 55,491,329	P 0	P 55,491,329
Other Unearned Income	23,322,206	0	23,322,206
Undistributed Collections	2,046,837	0	2,046,837
	P 80,860,372	**P 0**	**P 80,860,372**

6.5. Audit revealed the following details about the balances:

- CAAP assumed the majority of the dormant account balances from the then Air Transportation Office (ATO), its predecessor.

- The *Accounts Receivable* (AR) account balance primarily pertained to receivables for Air Navigation Charges, and landing and takeoff fees, while the *Operating Lease Receivable* (OLR) was due from concessionaires in CAAP-operated airports. Details are presented in Table 9. For balances in *Accounts Receivable*, the Accountant disclosed that they did not have the latest billing addresses of these clients. Hence, the difficulty in collecting the receivables. As to the *Operating Lease Receivable* balances, the Accountant claimed that these were carried forward balances from the then ATO.

Table 9. Dormant balances from AR/OLR accounts as of December 31, 2023
(Amounts in Millions)

Location	AR	OLR	Total
HO	P 1,469.961	P 0	P 1,469.961
AC I	8.781	0.884	9.665
AC II	1.056	0.001	1.056
AC III	16.815	6.034	22.850
AC IV	0.507	1.775	2.282
AC V	2.110	4.908	7.018
AC VI	6.476	0	6.476
AC VII	18.985	0.261	19.246
AC VIII	7.299	0.013	7.313
AC IX	0	0	0
AC X	8.127	0	8.127

Location	AR	OLR	Total
AC XI	45.932	24.843	70.775
AC XII	0	0	0
AC Total	**116.088**	**38.719**	**154.807**
	P 1,586.049	**P 38.719**	**P 1,624.768**

- The Accountant claimed that they did not have documents detailing even the breakdown of the balances in the *Other Asset and Deposit of Letters of Credit* accounts. They explained that, similar to the majority of the *Due from NGAs* account balances, these were carried forward balances from the then ATO.

- Majority of the balances in the *Due from NGAs* and *Deposit of Letters of Credit* accounts were carried forward balances from the then ATO. The Accounting Division informed that they did not have any data as to whom the amount was transferred/deposited, the balance, or the nature of such transfer/deposit. With regard to the *Operating Lease Receivable* and *Other Asset* account balances, the AD claimed that they did not have any documents detailing its breakdown. On the other hand, the balances in the *Other Receivables* account referred to unliquidated cash advances of separated, deceased, retired, or resigned disbursing officers. The account also included unsubstantiated balances amounting to P8.618 million.

- The *Due from LGUs* account balance involved unliquidated fund transfers to the provincial government of Misamis Oriental for the development of the Laguindingan Airport. The Accounting Division had been coordinating with the provincial government accountant for the refund of this amount in the absence of documents to support its liquidation.

- The *Advances to Contractors* account balance referred to the unrecouped advances of eight contractors. Demand letters were sent to two contractors but to no avail. Meanwhile, many of the balances referred to projects where CAAP had limited documents to initiate the validation. On the other hand, one contractor still had a project with CAAP and had agreed to deduct the unrecouped advance payment against the progress billing of the other project.

- The *Other Unearned Revenue/Income* account balance referred to alleged advances from airline operators to CAAP for Air Navigation Charges which remained outstanding for more than 10 years.

- The *Undistributed Collections* account balance pertained to unidentified collections directly deposited by customers to CAAP's bank account in 2013 and prior years.

- The *Due to NGAs* account balance comprised mainly of funds transferred by the Department of Transportation (DOTr) to the then ATO for the implementation of various airport projects all over the Philippines. The CAAP Management asserted that these projects were already completed, however, they did not have sufficient documents to support its liquidation given the period which had lapsed already. In CY 2021, the DOTr advised

CAAP to provide certifications to that effect. Still, we noted that the Area Center Managers were hesitant to provide such certification considering the lack of documents.

6.6. Given the circumstances revolving around these balances, the probability of collection or settlement of the majority of the asset balances was extremely low or nil. While we noted that provisions for impairment were already recorded for the majority of the balances, many of the aforementioned accounts still had insufficient provisions for impairment to appropriately reflect the true state of the account in accordance with PAS 1.

6.7. The lack of subsequent transactions relative to the above dormant accounts cast doubt on Management's assertion of the collectability of these assets and the existence of the liabilities.

6.8. We recommended and Management agreed to instruct:

a. The Chief Accountant and the Area Center Accountants to:

i. Review and analyze all accounts to determine the existence and validity of dormant accounts. Ensure that these balances are included in the Schedule of Dormant Accounts to be regularly submitted to the Audit Team;

ii. Recognize impairment loss/allowance, as applicable, for asset accounts with dormant balances by computing the expected credit losses for each account in accordance with PFRS 9 to ensure fair presentation of the balance;

iii. Secure the necessary documents and request for the approval of COA to write off/derecognize from the books of accounts the dormant accounts in accordance with the procedures prescribed under COA Circular No. 2023-008;

b. The Department Manager, Finance Department, to ensure all actions that need to be undertaken by the Accounting Division for the timely submission of the request for write-off/derecognition of dormant accounts in accordance with the aforementioned COA Circular are complied with and accomplished in a timely manner.

6.9. For *Advances to Contractors*:

6.10. We recommended and Management agreed to direct the CAAP-HO Accounting Division (AD) to:

a. Coordinate with ADMS and Contractor 1 to ensure that the balance of the advance payment of P1.815 million relative to the Continuation of the Development of Casiguran Airport Project be deducted from the payment of the 2nd progress billing for the Baler Airport Development Project (Phase 1);

b. Prepare the necessary adjusting entries, if warranted.

6.11. We further recommended that Management direct CAAP-HO AD and ADMS to exhaust all means to collect/recover the unrecouped amount from the three other contractors since they still have existing projects with, or claims against CAAP.

6.12. For *Due to NGAs*:

6.13. We reiterated our previous year's recommendations and Management agreed to:

a. Direct CAAP HO Accounting Division to:

i. Reconcile the recorded transactions in the GL and the SLs;

ii. Prepare the necessary adjusting entries, if warranted; and

b. Instruct the ADMS, Area Center VI Manager, and Area Center Engineer, to determine whether the usability of the runway at Kalibo Airport could be attributed to the completion of the asphalt paving done many years back. If so, issue the certification required by DOTr to support the liquidation of the funds transferred by DOTr to CAAP.

7. The balance of the *Receivables – Disallowances/Charges* account amounting to P100.487 million could not be relied upon due to the variance amounting to P24.410 million between its General Ledger (GL) and Subsidiary Ledgers (SLs) and the non-recording of receivables from disallowances with Notice of Finality of Decision (NFD) in ACs VI and XII amounting to P0.893 million.

7.1. This is a reiteration of the prior year's observations embodied in the CY 2022 AAR.

7.2. Philippine Accounting Standard (PAS) 1 *Presentation of Financial Statements* provides that the Financial Statements of an entity shall be presented fairly.

7.3. The GL is the book of final entries containing the totals of special journals and individual journal entries posted in the account. On the other hand, the SL is the book containing the details or breakdown of the balance of the controlling account appearing in the GL. The totals of the SL balances need to be reconciled with their respective control accounts regularly or at the end of each month.

7.4. Audit disclosed a variance of P24.410 million between the balances of the GL and SLs of the *Receivables – Disallowances/Charges* account. The variance could be attributed to the following:

- A substantial amount of the GL balance as of December 31, 2023, was carried forward to the books of CAAP in 2008 from its predecessor, the Air Transportation Office. During an interview, the Accountant explained that the Accounting Division did not have a breakdown of the account; thus, they could not create an SL account to reflect this balance.

- The Audit Team noted instances in CY 2022 and CY 2023 where the accountant could not identify the specific disallowance or charge the deductions from terminal leave benefits of employees with an aggregate amount of P47,975 were for. As such, the accountant directly posted the credits to the GL but not in any SL.

7.5. Further, the Audit Team observed that receivables arising from disallowances that have become final and executory amounting to P452,396 and P440,801 in AC VI and AC XII, respectively, were not recorded in the books of accounts of CAAP.

7.6. Maintaining subsidiary ledgers in the *Receivables-Disallowances/Charges* account and regularly monitoring all disallowances, suspensions, and charges, both final and executory or under appeal, is an integral part of record-keeping and control of the Authority to ensure the accuracy and reliability of the account and that all disallowances/suspensions and/or charges are accounted for accurately. It facilitates verifying amounts due from individuals liable for disallowances or charges at any given time.

7.7. The non-maintenance of proper and accurate records cast doubt on the reliability and accuracy of the account balance.

7.8. We reiterated our previous year's recommendations, with modification, and Management agreed to instruct:

7.9. The Chief Accountant in CAAP-HO to:

a. Verify the cause/s of the variance noted, reconcile the same, and make the necessary adjusting entry to correct the Authority's financial records;

b. Account for all the disallowances/suspensions and charges, including the respective settlements;

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

7.10. The Accountant in AC VI and AC XII to:

d. Record the disallowed amounts that have become final and executory, and henceforth, ensure proper and complete recording of disallowances, including the corresponding settlements.

8. **The balance of the *Due to BIR* account, amounting to P89.653 million, was unreliable due to unaccounted balances with an aggregate amount of P11.362 million, which is not in accordance with Philippine Accounting Standard (PAS) 1.**

8.1. This is a reiteration of prior years' observations embodied in the CYs 2021 and 2022 AARs.

8.2. PAS 1 on *Presentation of Financial Statements* states that "Financial Statements shall present fairly the financial position, financial performance and cash flows of an entity."

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

8.4. Since withholding taxes were remitted to the BIR every month, the year-end balance of P89.653 million represented the amount to be remitted in January 2024. However, the audit disclosed that the taxes withheld by the Authority for December 2023, which should have been remitted to the BIR in January 2024, amounted to only P78.291 million. The unaccounted balance of P11.362 million comprised P9.679 million at CAAP-HO, P376,471 in Area Center (AC) II, and P1.307 million in AC III.

8.5. The Audit Team requested Management to provide a detailed breakdown of the P11.362 million balance of the account, but the CAAP-HO Accounting Division (AD) did not provide any information. Since the CAAP-HO AD did not maintain any tool or list to keep track of all taxes withheld yet to be remitted to the BIR, the faithful representation of the account was not ascertained. Furthermore, the unaccounted balance in AC III was part of a prior year's observation, lacked concrete records, and was not properly turned over to the current AC Accountant by the predecessor.

8.6. The unaccounted balance of P11.362 million may represent taxes withheld in previous months or years that are yet to be remitted by CAAP to the BIR. However, without documentation or reconciliation to determine the nature and details of these balances, the Audit Team could not ascertain whether the account balance was faithfully represented in the financial statements as required under PAS 1.

8.7. We reiterated our previous years' recommendation, with modification, that Management instruct the Accounting Division at CAAP-HO, ACs II and III to reconcile their records to determine the nature and necessary details of the P11.362 million balance in the *Due to BIR* account, and thereafter, remit to the BIR the withholding taxes or prepare the necessary Journal Entry Vouchers to adjust the books, accordingly.

8.8. AC II Management noted the aforementioned recommendation for compliance. The AC II Accountant will exert effort to locate the supporting documents and reconcile or remit the balances reflected.

9. The completeness of the Cash and Cash Equivalents account balance of P5.255 billion as of December 31, 2023, could not be ascertained due to: (a) unrecorded book reconciling items resulting in an overstatement by P23.554 million; (b) variance of P21.967 million between General Ledger (GL) and Subsidiary Ledger (SL) balances; and (c) delay/non-preparation of Bank Reconciliation Statements.

9.1. Philippine Accounting Standards (PAS) 1 on Presentation of Financial Statements states that financial statements shall fairly present an entity's financial position, financial performance, and cash flows. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the Conceptual Framework for Financial Reporting.

a) Unrecorded book reconciling items overstated the Cash in Bank (CIB) balance by net amount of P23.554 million

9.2. This is a reiteration of our prior years' observations embodied in the Annual Audit Reports for CYs 2022 and 2021.

9.3. Examination of the Bank Reconciliation Statements (BRSs) disclosed that reconciling items amounting to P48.925 million remained unadjusted in the books of accounts as of December 31, 2023. The breakdown is shown in Table 10.

Table 10. Unrecorded book reconciling items

SLs	Bank Account	Amount	Under(over) statement
HO			
Cash in Bank-Local Curr, Current	Various	P 11,641,554	P (11,641,554)
Cash in Bank-Local Curr, Savings	Various	5,821,289	5,821,289
Cash in Bank-Foreign Curr, Savings	2514-0019-55	499,642	(499,642)
AC VIII			
Tacloban – RF	0182-1110-82	22,151,078	(22,151,078)
Tacloban – TF	0182-1120-03	27,009	(27,009)
Calbayog – GF	2172-1052-57	139,813	(139,813)
Catarman – GF	1192-1300-90	42,533	42,533
AC IX			
Zamboanga Local	0192-0287-87	935,157	(935,157)
AC-IX Local	0522-1351-78	4,346,929	4,346,929
Pagadian Local	0522-1203-75	845,268	(845,268)
Dipolog Local	0512-1100-37	2,091,196	2,091,196
Jolo Local	1232-1085-48	349,485	349,485
Dipolog	0512-1102-82	31,326	31,326
Dipolog	0512-1068-20	2,795	2,795
		P 48,925,074	**P (23,553,968)**

Legends: Regular Fund (RF), General Fund (GF), Trust Fund (TF)

9.4. The accountants explained that due to a lack of information and supporting documents, the above reconciling items remained unrecorded in the books of accounts. This resulted in the overstatement of the CIB balance by P23.554 million.

9.5. We reiterated our prior years' recommendations, with modification, that Management instruct the:

a. ADs of CAAP-HO, ACs VIII and IX to verify the reconciling items and prepare the adjusting entries with complete supporting documents to correct the CIB balance; and

b. AD-AC IX to expedite the reconciliation and prepare the necessary adjusting entries to correct the understatement in the CIB balance in the amount of P34,120 (for certified closed bank accounts) of Dipolog Airport.

9.6. CAAP HO, ACs VIII, and IX committed that further reconciliation of the accounts would be undertaken and necessary adjusting entries would be taken up.

9.7. We will continue to monitor the implementation of the recommendations.

b) Variance of P21.967 million between GL and SL balances

9.8. This is a reiteration of prior years' observations embodied in the Annual Audit Reports for CYs 2022 and 2021.

9.9. A comparison between the GL and SL balances as of December 31, 2023, disclosed a variance of P21.967 million. Details are shown in Table 11.

Table 11. Variance between GL and SL Balances

Account title	GL	SL	Variance
HO			
Cash-Collecting Officer (Cash-CO)	P 12,668,688	P 639,592	P12,029,096
Cash in Bank-Local Currency, Current Account (CIB-LCCA)	4,216,262,638	4,216,165,688	96,950
Petty Cash	1,527,040	1,605,000	77,960
Cash in Bank-Local Currency, Savings Account (CIB-LCSA)	385,354	389,188	3,834
AC XII			
Cash in Bank-Local Currency, Current Account (CIB-LCCA)	9,758,790	No SL	9,758,790
	P4,646,567,435	**P4,624,764,393**	**P21,966,630**

9.10. In the analysis of accounts and review of documents, the Audit Team determined some of the factors that caused the variance as follows:

9.10.1. Variances between the beginning balances of the GL and SLs;

9.10.2. Various entries in the GL either did not match the total postings to their respective SLs or were not posted in SL; and

9.10.3. Non-maintenance/preparation of SLs for three HO bank accounts and all AC XII bank accounts.

9.11. The AC XII Accountant explained that prior to her assumption, the Accounting Unit did not maintain any SL nor any schedule and breakdown for the above accounts, hence, the prior years' balances remained unverified resulting in the non-preparation of the required SLs.

9.12. Due to the unreconciled variance and absence of some required subsidiary ledgers, the accuracy and reliability of the *Cash and Cash Equivalents* account balance could not be ascertained.

9.13. We reiterated our prior years' recommendations that Management instruct the Accounting and Treasury Divisions of HO and AC XII to:

a. Reconcile the variances noted between the GL and SL, effect the necessary adjustment/correcting entries/postings, and prepare and submit the updated SLs to the Audit Teams; and

b. AD to maintain a Schedule of SL balances periodically to be compared with the GL balance for early detection of any variance.

9.14. CAAP-HO AD commented that they had recorded the adjustments to reconcile the GL and SL balances. They had already prepared the subsidiary ledgers, which will be submitted to the audit team.

9.15. AC XII committed that they would adhere to the audit recommendations.

9.16. The Audit Team reiterated its recommendation that AD maintain not only the SLs but also a Schedule of SL Balances to be compared with the GL balance. Given that the *Cash and Cash Equivalents* account has more than 50 SLs, a Schedule of SL Balances would be a helpful tool for early detection of variances between GL and SL balances.

c) Delayed/non-preparation of bank reconciliation statements (BRS)

9.17. This is a reiteration of prior years' observations embodied in the Annual Audit Reports for CYs 2022 and 2021.

9.18. Section 2.1.2 of COA Circular No. 92-125A requires the Chief Accountants to prepare correcting/adjusting entries for discrepancies/errors or other reconciling items requiring corrections by the agency immediately after the Bank Reconciliation Statement (BRS) was made and after those items were properly analyzed and verified.

9.19. The CAAP-HO maintained a total of 22 current and savings bank accounts. An analysis of the submitted BRSs showed an average delay of six months in its preparation. The persons in charge explained that due to a lack of manpower, BRS preparation was given a lower priority since it was added to their workload. According to them, they also waited for the issuance of the GL before they could start preparing the BRSs.

9.20. It was also noteworthy to mention that, as of date, two bank accounts lacked BRSs for the second half of the year, and three accounts had no BRSs for the entire year. The person in charge explained that a misunderstanding as to who would prepare the BRS led to this oversight.

9.21. The same was observed with ACs VI and IX. For AC VI, no BRSs were prepared nor submitted for the 22 accounts related to the ROW Fund of the Caticlan Airport Development Project (CADP). While preparation and submission of the BRSs of AC IX were delayed.

9.22. Timely bank reconciliations is crucial for ensuring accurate financial records, detecting discrepancies, and preventing fraudulent activities. In contrast, delays in reconciliation could result in misstated financial reports, increased risk of fraud, and inefficiencies in accounting processes.

9.23. We reiterated our prior years' recommendations that Management direct:

a. AD HO, ACs VI and IX to prepare and submit the BRSs to the Audit Teams;

b. AD-HO to designate personnel whose main task is bank reconciliation, considering that Cash is the most liquid asset that should be monitored closely; and

c. AD-HO and AC IX to closely monitor the timely submission of BRSs to make certain that the reconciling items are immediately detected and recorded/adjusted in the books to ensure the completeness and accuracy of the account balances in the financial statements.

9.24. CAAP-HO commented that they had prepared the bank reconciliation statements and would be submitted to the Audit Team.

9.25. AD-HO would see to it that dedicated personnel would be assigned to do this task.

9.26. HO committed that they would ensure that BRSs are timely and accurately prepared and that the necessary adjustments for identified reconciling items would be recorded immediately.

ACs VI and XI committed to comply with the audit recommendation and submit the BRSs to the Audit Team.

10. The accuracy and completeness of the *Transportation System Fees* account balance amounting to P2.145 billion as of December 31, 2023, could not be ascertained due to the variance of P15.111 million between the computed amount of Domestic Passenger Service Charge (DPSC) per CAAP Flight Monitoring Reports (FMRs) vis-à-vis the Air Carriers' Remittance Reports.

10.1. This is a reiteration, with modification, of the audit observation embodied in the CY 2022 Annual Audit Report.

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

10.3. In CY 2016, CAAP entered into a Memorandum of Agreement with Air Carriers for the integration of DPSC at the Point of Sale of Airline Ticket to trim down the processing of passengers. Related thereto, CAAP issued the implementing guidelines under CAAP MC No. 022-17 (series 2017) entitled "*Implementing Guidelines for the Integration of the Domestic Passenger Service Charge at the Point of Sale of Airline Ticket.*" to address the congestion in CAAP Terminals with the increasing volume of passengers.

10.4. CAAP MC No. 022-17, under paragraphs 6.1 to 6.3, enumerates the responsibilities of the Air Carriers on the collection and remittance of DPSCs to CAAP. The same MC also provides the due date of remittance wherein the *DPSC collections from the 1st to the 15th day of the month shall be on or before the 15th day of the succeeding month while DPSC collection from the 16th day to the end of the month shall be on or before the end of the succeeding month*. In case of failure of the Air Carriers to remit the collected DPSC in full amount to CAAP within the specified time, the balance of the unremitted amount shall also be subject to an interest/penalty surcharge of 18 per cent per annum.

10.5. During the CY 2023 audit, the Audit Teams at each Area Center conducted a walkthrough of the boarding process of outgoing passengers at CAAP airports. They were able to gather all the relevant data for DPSC computation from the Flight Data Encoder/Recorder, a CAAP personnel in-charge in preparing the FMR on Aircraft Operations and Airport Traffic. Other source documents used in the audit of DPSC also included the Airline Summary Report of Outgoing Passengers, Terminal Fee Ticket Checklist, Daily Load Report, Air Traffic Report Form, Load Sheet, Domestic Control Sheet, and Monthly Aircraft, Passengers, and Cargo Movements.

10.6. Using the abovementioned documents, the Audit Teams gathered the data on the number of enplaned passengers from January 1, 2023, to December 31, 2023. They segregated the passengers as "paying" and those "exempted" from paying DPSC. By multiplying the total number of "paying" passengers with the applicable DPSC rate, the Audit Teams were able to determine the total gross income from DPSC or the *Transportation System Fees* (*inclusive of Output Tax*) for the period.

10.7. To verify the accuracy and completeness of the *Transportation System Fees* account balance, the Audit Teams compared the income from DPSC based on FMRs vis-à-vis the DPSC per Remittance Reports submitted by the Air Carriers to CAAP. Details are shown in Table 12.

Table 12. Consolidated Variance between the computed amount of DPSC per Flight Monitoring Reports against Remittance Reports for CY 2023

Location	DPSC per audit (a)	DPSC per books (b)	Positive Variance* (c)	Negative Variance** (d)	Net amount of Variance (a-b) or (c+d)
AC I	P 19,393,500	P 19,328,800	P 88,300	P (23,600)	P 64,700
AC II	26,684,400	25,809,650	988,000	(113,250)	874,750
AC III	4,637,250	4,238,550	399,600	(900)	398,700
AC IV	194,285,400	190,666,200	3,776,600	(157,400)	3,619,200
AC V	60,889,150	60,398,650	1,637,650	(1,147,150)	490,500
AC VI	501,952,550	504,015,850	4,914,850	(6,978,150)	(2,063,300)
AC VII	114,857,100	114,434,250	799,850	(377,000)	422,850
AC VIII	128,039,150	119,663,350	8,441,900	(66,100)	8,375,800
AC IX	126,850,200	125,986,350	1,084,350	(220,500)	863,850
AC X	216,136,400	216,938,200	3,818,550	(4,620,350)	(801,800)
AC XI	378,628,200	375,607,800	3,158,600	(138,200)	3,020,400
AC XII	63,142,200	63,296,850	132,600	(287,250)	(154,650)
	P 1,835,495,500	**P 1,820,384,500**	**P 29,240,850**	**P 14,129,850**	**P 15,111,000**

** DPSC per Audit > DPSC per Remittance Report*
*** DPSC per Audit < DPSC per Remittance Report*

10.8. A notable positive variance of P29.241 million under column (c) was a result of a higher amount of DPSC per audit compared to the DPSC per Remittance Reports. Part of the variance comprised the unremitted DPSCs amounting to P4.567 million from various Air Carriers reportedly engaged in regular operations in various CAAP airports but did not remit the collected DPSCs. Hence, the income earned was not recognized in the books of accounts as of year-end.

10.9. The AD in CAAP-HO claimed they were enforcing the collection of the unremitted DPSCs through a series of communications and issuance of demand letters in coordination with the respective Area Center Accountants/Airport Managers. Meanwhile, the remittances recently made by the concerned airlines in CY 2024 are undergoing reconciliation.

10.10. There were instances where the DPSC per Remittance Reports exceeded the computed amount of DPSC per audit, resulting in a negative variance of P14.130 million under column (d).

10.11. Inquiry with the respective Area Centers' Management disclosed that the negative variance may be attributed to the following: 1.) inclusion of DPSC remittances from passengers who were unable to board or failed to appear for the scheduled flights, often referred to as "no-shows;" and 2.) incomplete or inaccurate details in the FMRs and other source documents utilized in the audit of DPSC.

10.12. In summary, the total net variance between the calculated amount of DPSC per CAAP FMRs and the Air Carriers' Remittance Reports amounted to

P15.111 million with a contributing factor in the CAAP-HO AD's practice in recognizing income from DPSC. They used the Remittance Report as the basis for recording income in the books of accounts even without validating the veracity of the data presented in the report. At year-end, only unremitted DPSCs with available Remittance Reports, typically for December of the current year, which were due for remittance in January of the succeeding year, were recognized as income in the books of accounts.

10.13. Instead of the DPSC Remittance Reports, the AD or Billing Units in Area Centers could have used the FMRs and other source documents to determine the monthly income earned, issue the monthly Statements of Account (SOA), and accordingly recognize in the books of accounts the income from DPSC and the related receivables.

10.14. Meanwhile, the Audit Teams emphasized that the FMRs were duly attested and signed by the pilot and/or authorized airline personnel and, thus, can be considered documentary evidence to support income recognition. The FMRs need to be reconciled regularly with the DPSC Remittance Reports to ensure the completeness and accuracy of income recognized in the books of accounts. Any discrepancies or variances found between the two reports need to be reconciled immediately to address the over and under-remittances of DPSC properly.

10.15. The deficiencies noted above could be attributed to the absence of a clear-cut policy. These gaps would be addressed through the issuance of guidelines as to the recording, reconciliation, and monitoring of DPSC collections and remittances, including, but not limited to the following provisions:

10.15.1. Standardized and uniform format of reports that would facilitate the recording of accrued income as well as the monitoring of "booked" (flown and unflown) paying passengers;

10.15.2. Specifying the office responsible, the steps to be done to reconcile regularly the AC records vis-à-vis the Airline Carriers' DPSC Remittance Report, and the actions to be taken whenever a variance is noted; and

10.15.3. Regular reconciliation of FMRs and DPSC Remittance Reports. Billings are to be issued for any unreconciled balances.

10.16. We reiterated our previous year's recommendations, with modifications:

10.17. For CAAP-HO Accounting Division and all AC Accountants:

a. Coordinate with Air Carriers to reconcile immediately the variance of P15.111 million between the FMRs against DPSC Remittance Reports, determine the other causes of the variance, and take corrective action to prevent the recurrence thereof; and

b. Issue monthly SOA to Air Carriers based on the FMRs and other source documents originating from the Area Centers and accordingly recognize income from DPSC and the related receivables.

10.18. For CAAP Flight Data Recorders/Encoders assigned in each Area Center:

c. Coordinate regularly with the Accounting and Billing Units of Area Centers in monitoring the Air Carriers' operations in all CAAP Airports to ensure the timely and accurate remittance of collected DPSCs to CAAP. This is to prevent the recurrence of non-remittance of DPSCs; and

10.19. For CAAP HO – Business Development Division

d. Issue guidelines as to the recording, reconciliation, and monitoring of DPSC collection and remittances.

10.20. Management commented that the AD had sent letters and billings to all carriers for under remittances of DPSC collections for CY 2023. Out of the P14.4 million billed, P2.7 million had been collected.

10.21. AD also claimed that the majority of the air carriers are religiously remitting the DPSC collections in accordance with CAAP's prescribed deadlines so instead of monthly SOA, CAAP will be issuing quarterly variance reports for DPSC under remittances. All the 12 Area Center Accountants are now preparing the first quarter reports for CY 2024 DPSC under remittances. DPSC collections can be recorded before the monthly/quarterly closing of the GL.

10.22. Management also explained that the Accounting and Billing units of all Area Centers are now closely coordinating with CAAP's airport personnel in charge of preparing the FMRs. This is to ensure the timely submission of the FMRs, which is Accounting's basis for preparing the quarterly variance reports.

10.23. Management also commented that accrual of revenues for DPSC if necessary, would only happen during the year end as the airlines are religiously remitting the DPSC collections on or before the deadlines set by CAAP. With regard to the minimum information in the documents, all those mentioned in the COA recommendation are available except for the total number of "booked" passengers (flown and unflown), as this information could only be seen in the passenger sales system of the airlines and could only be accessed by authorized airline personnel. The FMRs are signed by CAAP personnel who prepared the report and are certified by the pilots or airline representatives.

10.24. In this regard, the Area Centers are responsible for preparing quarterly variance reports and submitting them to the AD in CAAP-HO for consolidation and preparation of billing to the air carriers.

11. Unbilled/uncollected interest/penalty surcharge amounting to P2.048 million.

11.1. Due to the noted positive variance of DPSC in Table 12, the Audit Teams computed the unbilled/uncollected interest/penalty surcharge corresponding to the under-remittances that were still outstanding as of December 31, 2023. The results thereof showed the amount of P2.048 million pertaining to unimposed penalties/interest on unremitted DPSCs calculated from the due date of remittance up to December 31, 2023, at 18 per cent per annum. Details are summarized in Table 13.

Table 13. Unremitted DPSC and the Corresponding Interest/Penalty Surcharge as of December 31, 2023

Location	*Unremitted DPSC**	*Interest/Penalty Surcharge***
AC I	P 88,300	P 5,005
AC II	988,000	78,697
AC III	399,600	28,085
AC IV	3,776,600	248,404
AC V	1,637,650	122,264
AC VI	4,914,850	279,723
AC VII	799,850	44,656
AC VIII	8,441,900	687,156
AC IX	1,084,350	64,772
AC X	3,818,550	256,161
AC XI	3,158,600	223,105
AC XII	132,600	9,808
	P 29,240,850	P 2,047,836

** Positive variance derived from column (c) of Table 12*
***Based at 18% p.a. from due date of remittance up to 12/31/2023*

11.2. The DPSC collected by air carriers were regarded as monies held in trust on behalf of CAAP. Thus, the Authority needs to ensure that remitted collections are accurate, complete, and intact. The corresponding interest/penalty surcharges for delayed or under remittances, as specified in the CAAP MC No. 022-17, had to be strictly imposed.

11.3. We recommended that Management instruct the CAAP-HO Accounting Division and all AC Accountants to reconcile immediately with the Air Carriers the positive variance of P29.241 million and issue the corresponding supplemental billings thereof to enforce collection of the unremitted DPSCs plus the unbilled/uncollected interest/penalties with an aggregate amount of P2.048 million if warranted.

11.4. Management commented that billings had been sent to the airlines for the under-remittances. While the corresponding interest/penalty would only be computed once settlement had been made as the penalty amount for late payments depended on the actual payment date.

11.5. We emphasized that the Audit Teams in each Area Center were able to compute the unbilled/uncollected interest/penalty surcharges corresponding to the under remittances as of December 31, 2023. This resulted in an aggregate amount of P2.048 million in interest/penalties for the P29.241 million under remittances.

11.6. Further, instead of waiting for the actual settlement date to determine the number of days incurred for late payments, the Accounting Division could have proactively computed the interest/penalty based on a specific cut-off period. This approach would enforce the immediate settlement of under remittances and encourage Air Carriers to pay the amount due as soon as possible, thereby preventing the accumulation of interest/penalty over time.

12. The *Due to National Government Agencies* (NGAs) account balance of AC X amounting to P2.706 million could not be relied upon due to unsubstantiated transactions and unreconciled variances between the related cash and liability accounts contrary to Paragraph 15 of PAS 1 and the Conceptual Framework for Financial Reporting.

12.1. This is a reiteration of our prior years' observation embodied in the CYs 2021-2022 Annual Audit Reports.

12.2. Paragraph 15 of the Philippine Accounting Standards (PAS) No. 1 *Presentation of Financial Statements* requires the fair presentation of financial statements of an entity.

12.3. Also, paragraph Nos. 4.15 to 4.18 of the Conceptual Framework provide that Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. An obligation normally arises only when the asset is delivered or the entity enters into an irrevocable agreement to acquire the asset.

12.4. Analysis of CAAP AC X's Financial Statements (FS) as of December 31, 2023, revealed that the AC's *Due to NGAs* account balance amounted to P2.706 million, including the additional travel-related expenses of Department of Transportation (DOTR) representatives, recorded in the books of accounts in CY 2023. This liability was initially recognized in the books of accounts around CY 2013 upon receiving funds from the DOTr despite the absence of any proof of binding contract or memorandum of agreement to substantiate the recognized obligation and the other transactions related thereto.

12.5. Comparison of the *Due to NGAs* account balance against its related Cash in Bank account as of December 31, 2023, showed an unreconciled difference of P424,370.

12.6. The variance was noted upon turnover of the accounts by the former Area Accountant, where the balance was forwarded under the account title *Due to Other Funds* in the amount of P3.820 million as of July 31, 2013. On the other hand, the bank balance per bank statement as of the said date was P3.320 million, thus, a discrepancy of P0.500 million. The *Due to Other Funds* account was then reclassified by the current accountant to *Due to NGAs* on December 28, 2018.

12.7. Due to the absence of any proof of binding contract/memorandum of agreement/ understanding that gave rise to the recognized obligation, the Area Center found it difficult to determine the purpose and appropriate uses of the fund to effect settlement and ascertain the regularity of transactions. Moreover, the cash in the bank and ledger balances could not be reconciled due to errors and the absence of trace documents.

12.8. We reiterated our previous year's recommendations that Management direct the AC X Management to coordinate with CAAP-HO or with DOTr to request any proof of binding contract/ memorandum of agreement between CAAP and the DOTr for the appropriate utilization of the fund based on the stated purpose, copy furnish COA of communications made; otherwise, cause the immediate return of the fund's balance to the DOTr.

12.9. We further recommended that AC X Management:

a. Secure the necessary documents needed to support the reconciliation of balances between the *Due to NGAs* and related *Cash in Bank* account;

b. Make the necessary adjustments to correct erroneous balances, copy furnish COA of the adjustment made; and

c. Ensure that expenses charged against the fund observe auditing and accounting rules and regulations, in the absence of any binding contract, to avoid any irregular expenditures and/or disallowances.

12.10. The AC X Management commented that the Area Accountant had already sent an email to the concerned DOTr personnel requesting the required supporting documents. The Audit Team is still waiting for an update on the response of the DOTr.

13. The faithful representation of the balance of the *Guaranty/Security Deposits Payable* account of P66.048 million was not obtained due to the variance of P1.457 million between the General Ledger (GL) and Subsidiary Ledgers (SLs) balances.

13.1. This is a reiteration of audit observation embodied in CYs 2021 and 2022 AAR.

13.2. Paragraph 15 of the Philippine Accounting Standards (PAS) No. 1 requires the fair presentation of financial statements.

13.3. Retention money pertains to the amount withheld from progress payments to contractors, equivalent to 10 per cent of the total amount due before any deduction until 50 per cent of the value of works is completed, as determined by the procuring entity. If, after 50 per cent completion, the work is satisfactorily done and on schedule, no additional retention shall be made; otherwise, the 10 per cent retention shall be imposed. It is intended to cover uncorrected discovered defects and third-party liabilities prior to the issuance of the final acceptance.

13.4. Comparison between the balances of GL and SL of CAAP-HO revealed a variance of P1.457 million. Details are shown in Table 14.

Table 14. Variance between GL and SLs

Balance as of December 31, 2023		Amount
Per GL	P	38,547,970
Per SL		37,090,596
	P	**1,457,374**

13.5. The SL balance of CAAP-HO amounting to P37.091 million is broken down in Table 15.

Table 15. Breakdown of the Balance per Subsidiary Ledgers

Particulars		Amount
Reclassification of Bail Bonds Payable	P	19,712,017
Subsidiary Ledger for Infrastructure Projects		9,014,670
Subsidiary Ledger for Procurement of Goods		7,315,128
CY 2009 Unaccounted Beginning Balance		852,556
Performance Bond		196,225
	P	**37,090,596**

13.6. Analysis of records revealed discrepancies in maintaining, updating, and monitoring the SLs for each contractor from whom the Authority withheld retention money. Specifically, the Audit Team observed: (a) various unaccounted transactions with suppliers in SLs for Infrastructure Projects amounting to P5.117 million, (b) absence of supporting documents for the reclassification from the *Bail Bonds Payable* account to *Guaranty/Security Deposits Payable* account, with no corresponding SLs for transactions initially recorded in the former account, and (c) CY 2009 unaccounted beginning balance. With this, AD committed to resolve the discrepancy by (a) exerting efforts to gather supporting documents, and (b) conducting a thorough review of transactions recorded in both the GL and the SLs.

13.7. Area Center V, on the other hand, reiterated that the beginning balance of the account in the amount of P1.953 million could not be substantiated as to its composition due to non-maintenance of schedules and records thereof.

13.8. Considering that CAAP is simultaneously implementing numerous projects and contracts, it is imperative to properly maintain and continuously update the SLs for accurate record-keeping. The inability to properly maintain the SL, account for the transactions, and reconcile the variance, has resulted in an inaccurate and unreliable balance for the account *Guaranty/Security Deposits Payable*.

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

13.10. CAAP-HO AD to:

a. Conduct a comprehensive review of the balances in both GL and SLs, including the recorded transactions, for the *Guaranty/Security Deposits Payable* account;

b. **Make the necessary adjustments in the books of accounts, if warranted, and submit any relevant updates to the Audit Team for validation; and**

13.11. **AC V to prepare and maintain subsidiary ledgers with complete details supported by Aging Schedules for proper monitoring, and submit the same to the Audit Team for validation.**

13.12. CAAP-HO Management commented that although the review of the account resulted in a significant adjustment of the balances as of December 31, 2023, the variance of P1.457 million is yet to be reconciled as CAAP-HO AD is still in the process of retrieving the documents to identify the unreconciled amount.

13.13. While AC V Accounting Section committed to submit the reports to the Audit Team.

13.14. The AC V Audit Team will monitor compliance on the submission of the reports.

B. OTHER OBSERVATIONS

14. 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.

14.1. This is a reiteration, with modification, of our audit observation embodied in the CY 2022 Annual Audit Report.

14.2. Control Activities is the third of the five (5) integrated components of the COSO Framework of Internal Control. Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and busi-ness performance reviews.

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

14.4. Meanwhile, COA Circular No. 2017-004 dated December 13, 2017, which provides guidelines on the preparation of financial statements and other financial reports, prescribes the use of Disbursement Vouchers (DV) which shall be used to pay an obligation to employees/individual/agencies/creditors for goods purchased or services rendered. Box ‘B’ of the form requires the certification of the head of the Accounting Unit that supporting documents relative to the disbursement are complete and that the amount claimed is proper.

14.5. CAAP contracted a service provider for technical and non-technical support service personnel at the CAAP Head Office and in different CAAP Area Centers across the Philippines. Records show that from March 2020 to December 31, 2023, CAAP had already paid the service provider with an aggregate amount of P3.407 billion.

14.6. In CY 2022, the Audit Team observed, among others, that the Accounting Division did not conduct 100 per cent validation of the service provider’s claims before payment. In response to the audit observation, the Accounting Division designated several personnel to undertake the 100 per cent validation. The Audit Team evaluated the current process and observed the following internal control deficiencies which are contrary to the aforementioned guidelines:

14.6.1. According to the Accounting Division (AD) they were already validating all claims from the service provider before payment. However, the audit revealed that they only validated the accuracy of the computation on the billing register and the completeness of supporting documents. The AD did not verify whether the names, positions, and rates in the billing register were indeed the personnel authorized to render service for a particular pay period, or whether the positions and rates corresponding to those names were accurate.

14.6.2. Monitoring of claims was done per Statement of Account (SOA)/billing register rather than individual claims of each contract of service personnel. The Audit Team observed that AD did not verify whether individual claims contained in the billing register were valid claims which may have already been included in prior billings, thus, may result in double payment.

14.6.3. Some AD personnel designated to validate the billing registers were employees of the service provider assigned in CAAP. While the concerned individuals were not solely responsible for the entire validation process, it would have been more prudent for CAAP to assign different personnel to conduct the validation, considering that the expenses to be paid involved the claims of the subject personnel.

The HRMD continuously issued certifications attesting to satisfactory manpower outsourcing services rendered by the service provider for CAAP-Head Office and all its Area Centers for a particular period despite having no visibility into the services rendered in the Area Centers or any documents to support such statement. The subject Certification forms part of the documentation attached to the Disbursement Voucher when processing the claims of the service provider.

14.7. The Audit Team emphasized that, prior to the disbursement of government funds, the AD is duty-bound to review the accuracy and validity of all claims against CAAP. The lack of a clear policy and procedures for validating claims by the service provider of ICOS, despite the significance of the amount involved, denotes weakness in CAAP's internal control and contradicts the guidelines set forth in the ICSPPS. It likewise casts doubt on the accuracy and regularity of the payments made.

14.8. 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;

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.

15. Non-remittance to CAAP of the 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.

15.1. In CY 2016, CAAP entered into a MOA with the domestic Air Carriers for the integration of DPSC at the point of sale of airline tickets to trim down the processing time of passengers, thereby promoting a smoother and more convenient travel experience to address the congestion in CAAP Terminals brought by the increasing volume of passengers.

15.2. Related thereto, CAAP issued the implementing guidelines under MC No. 022-17 (series 2017) entitled "*Implementing Guidelines for the Integration of the Domestic Passenger Service Charge at the Point of Sale of Airline Ticket.*"

15.3. Review disclosed that the provisions of the circular, except those distinct to the operations of the Authority, were patterned and substantially lifted from the integration policies of the Manila International Airport Authority (MIAA), particularly MC No. 06 dated March 31, 2017.

15.4. An audit of income from DPSC recorded under the *Transportation System Fees* account revealed an undetermined amount of uncollected income due to the following:

a) Air Carriers' non-remittance to CAAP of unrefunded DPSCs from Expired/Unused Passenger Tickets

15.5. The 2016 MOA and CAAP MC No. 022-17 specified the responsibilities of Air Carriers in processing DPSC refunds. While MC No. 022-17 specified the guidelines and documentary requirements for processing refunds to passengers with unused tickets, it did not include provisions regarding the remittance to CAAP of unrefunded amounts of DPSC collected by Air Carriers from exempted passengers or unused/expired tickets.

15.6. In the case of MIAA, the Authority issued revised implementing guidelines on PSC integration through MC No. 18 (series of 2019) that took effect in June 2019.

15.7. Further, Section 8.2 of MIAA MC No.18-2019 specified that MIAA shall be responsible for processing the refunds to passengers with expired airline tickets only after remittance by the Air Carrier.

15.8. In CY 2021, AOM No. 2021-005 (2020) was issued for CAAP's non-revision of its existing MC in line with the amended guidelines of its counterpart agency, MIAA. It was recommended that CAAP revisit the rules and regulations embodied in CAAP MC 022-17, and take appropriate action and/or introduce revisions thereto, considering the changes implemented by MIAA.

15.9. In response to the AOM, Management stated that CAAP had conducted a series of public hearings and consultations with various aviation stakeholders since 2019. However, the finalized draft for the amendment of the MC, slated for approval and implementation in early 2020, was subsequently postponed due to the onset of the COVID-19 pandemic.

15.10. In September 2022, Management presented again to the CAAP Board of Directors a proposal to revise the MOA requiring the airlines to remit to the Authority the DPSC not only on flown tickets but also on unutilized tickets.

15.11. Subsequently, the Board approved the request to continue collecting DPSC and to issue a revised MOA with the airlines, requiring them to remit to CAAP all DPSC collections, net of refunds and exemptions, for flown and unutilized tickets.

15.12. However, in April 2023, when the revised guidelines on the DPSC were presented again to the Board, it was deferred for further study and review. As of this date, the amendment of the existing CAAP MC, initially drafted in 2019 is still ongoing.

b) Air Carriers' non-remittance to CAAP of unrefunded DPSCs from the Locally-Recognized Exempted Passengers (LREPs)

15.13. CAAP MC No. 022-17 enumerated the passengers who are not subject to the payment of DPSC which includes the LREPs. Section 3.11 of the said MC defined LREPs as officials and employees of CAAP who are on Official Travel or authorized by law and the Office of the President.

15.14. Further, Sections 8.1 and 8.2 of CAAP MC 022-17 provide that the CAAP shall be responsible for processing refunds to passengers who are exempted from the payment of DPSC. Exempted passengers who paid DPSC on tickets issued/reissued on or after shall proceed to *1) Refund counters located at a designated airport counter; or at the 2) CAAP Administration Building*.

15.15. Moreover, Section 8.4 of CAAP MC No. 022-17 states that: "xxx The Air Carrier shall also be responsible for the refund and payment of DPSC to exempted passengers defined under Item 4.4 who were erroneously assessed and charged with the payment thereof."

15.16. Audit disclosed that certain CAAP officials and employees were identified and included in the List of Exemptions as LREPs per Remittance Reports. The DPSCs paid by these LREPs were deducted by the Air Carriers from the total amount of DPSC remitted to CAAP.

15.17. Based on the Remittance Reports for CYs 2017-2023 retrieved by the Audit Team, the amount of DPSC paid by 852 identified CAAP officials and employees tagged as LREP amounted to P146,000.

15.18. Audit revealed that AD was not aware that CAAP officials and employees were tagged as LREPs. They were not also familiar with the mechanisms employed by the Air Carriers to identify the CAAP officials and employees on official travel among the boarding passengers. There was no record of DPSC refunds to these LREPs processed at the CAAP Administration Building and Refund counters in CAAP airports since then.

15.19. The AD at CAAP-HO and all of its ACs were merely relying on the Remittance Reports as to the amount of DPSC collected from passengers without validating the accuracy of the said report. They were not able to account for the total amount of DPSC that should be remitted, *net of refunds directly made by the Air Carriers to passengers with expired/unused tickets and to locally-recognized exempted passengers*, collected at the point of sale of tickets.

15.20. Section 3, Article IV of the 2016 MOA states that "DPSC collected by the Air Carriers should be regarded as monies held in trust on behalf of CAAP." Thus, the non-enforcement of the remittance of unrefunded DPSCs since the implementation of the integration scheme in 2017 resulted in an undetermined amount of uncollected revenue on the part of the government.

15.21. 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.

15.22. In addition, consider to include the following provisions:

15.23. 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;

15.24. 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.

15.25. Management commented that CAAP is in the process of revising MC No. 022-17 to include the remittance of DPSC for unutilized tickets. Non-enforcement by CAAP of the remittance of DPSC on unutilized tickets does not result in uncollected income for CAAP. The money collected for the unused ticket belongs to the passenger who paid it since he or she has not flown or taken the flight nor had it refunded. If this will be remitted to CAAP it should be recognized as a trust liability.

15.26. As to the Air Carriers' non-remittance to CAAP of unrefunded DPSCs from the LREPs, Management agreed that the provision exempting LREPs from paying DPSC should be removed from the MC for the following reasons:

a. The airlines would have no way to identify LREPs purchasing tickets because there was no indicator on the ticket showing that the passenger was a CAAP employee traveling on official business.

b. Even if a CAAP employee paid the DPSC upon purchasing the ticket, the airline would remit the same DPSC to CAAP once the passenger had flown. If the CAAP employee did not pursue his travel, he could request for a refund, and a proper liquidation of the refunded amount would be required, assuming the employee received a cash advance from CAAP.

15.27. With regard to the DPSC Remittance Report prepared by PAL from September 2017 to March 2020 which indicated the number of LREPs who took flights and were deducted from the total passenger load, Management explained that these LREPs were considered as "deadheading" and were not ticketed; therefore, they did not pay DPSCs.

15.28. The Audit Team agreed that money collected from DPSC for unused tickets belongs to the passenger who paid it. However, without a policy requiring Air Carriers to remit these funds to CAAP, the unrefunded DPSCs would remain with the Air Carriers if passengers do not claim them.

15.29. The Audit Team also emphasized that CAAP was already providing flexibility by allowing Air Carriers to remit collected DPSCs up to one and a half months after the flight, per Sec. 6.2 of CAAP MC No. 022-17. This policy allows Air Carriers to use these funds temporarily as operating capital.

15.30. Additionally, the Air Carriers can collect DPSCs as early as one year in advance when passengers book their tickets, but remittance to CAAP follows the schedule in Sec. 6.2 of CAAP MC No. 022-17.

15.31. Air Carriers can earn interest on collected DPSCs by maintaining these funds as a Trust liability or Restricted Fund and depositing them in a bank. Despite this, Air Carriers only remit to CAAP the DPSCs collected from flown tickets, but not the interest earned while the unremitted funds were held in the bank. Thus, the Air Carriers' non-remittance of DPSCs on unutilized tickets and the interest earned results in uncollected income for CAAP.

15.32. The Audit Team likewise concurred with Management's decision to remove the exemption for LREPs from paying DPSC.

15.33. However, regarding the explanation that the identified LREPs (CAAP Employees) in the Remittance Reports of PAL & PAA for CYs 2017 – 2023 are considered "deadheading" and thus classified as non-paying passengers, the Audit Team further requested Management to provide supporting documents or proof for this claim.

15.34. The Audit Team also sought clarification on how these LREPs (CAAP Employees) were categorized as deadheads on such flights.

16. 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.

16.1. CAAP as a VAT-registered corporation is required to file and pay VAT returns, reflecting the excess of output tax over the input tax. Output taxes represent VAT recognized from the services rendered by CAAP, while input taxes refer to the amount of VAT on the goods or services it procured.

16.2. Meanwhile, COA Circular No. 2020-002 dated January 28, 2020, defines Creditable Input Tax as an account that is "debited to recognize the excess input tax paid on purchases over output tax. This account is credited upon offsetting against output tax and/or set-up of VAT Payable, and/or adjustment."

16.3. The *Creditable Input Tax* account had a balance of P293.861 million as of December 31, 2023. This amount represented the excess of input tax paid on purchases over the output tax, which could be utilized as tax credits to be deducted from CAAP's VAT payable. The audit noted that CAAP did not apply its creditable input tax to reduce its VAT obligations to the BIR in CY 2023. Instead, CAAP made quarterly cash disbursements for its VAT payable amounting to P366.485 million, resulting in the unutilized balance of P293.861 million creditable input tax at year-end.

16.4. The Accountant responsible for the filing and remittance of VAT to the BIR admitted that he overlooked the balances in the *Creditable Input Tax* account. However, it bears pointing out that the Chief Accountant and the Department Manager III of the Finance Department both played integral roles in the processing of the disbursements in question. The latter certified that the expense was necessary, lawful, and incurred under her direct supervision. Meanwhile, the Chief Accountant certified that the supporting documents were complete and that the amount to be paid was proper. Both officials had access to CAAP's financial statements and other pertinent documents for them to determine whether CAAP had any unutilized creditable input tax as of the time of disbursement. Despite these available resources, both were not able to prevent the unnecessary disbursements which ultimately deprived CAAP of additional funds it could spend to further accomplish its mandate.

16.5. We recommended and Management agreed to 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.

17. 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.

17.1. This is a reiteration, with modification, of a prior year's audit observation embodied in the CY 2022 COA Annual Audit Report (AAR).

17.2. Paragraph 46 of Philippine Accounting Standards (PAS) 12 on *Income Taxes* states that current tax assets for the current period and prior periods shall be measured at the amount expected to be recovered from taxation authorities.

17.3. Section 57 (B) of Chapter IX of The NIRC of 1997, as amended, defines Withholding of Creditable Tax at Source as a "tax on the items of income payable to natural or juridical persons, residing in the Philippines, by payor-corporation/persons as provided for by law; Provided, beginning January 1, 2019, the rate of withholding shall not be less than one per cent but not more than fifteen per cent of the income payment."

17.4. The Revised Chart of Accounts for Government Corporations defines WTaS an account that is debited to recognize the amount of creditable withholding tax deducted by an entity, which is designated by the BIR as authorized agent, from rental, interest income from loans, service fees on deposit of notes, supervisory and other bank fees, income from payments and settlements transactions or other services to be credited by BIR upon receipt from the entity of proof of remittance to the BIR together with BIR Form No. 2307. The account is credited upon application of the excess previous tax payments against income taxes payable to the BIR and/or adjustments.

17.5. Meanwhile, Section 229 of the NIRC states that no suit or proceedings for the recovery of tax erroneously collected shall be filed after the expiration of two (2) years from the date of payment of the tax or penalty. Provided, however, that the Commissioner may, even without a written claim therefore, refund or credit any tax, where on the face of the return upon which payment was made, such payment appears clearly to have been erroneously paid.

17.6. Moreover, Section 58 (E) of Chapter IX of The NIRC of 1997 states that the "claims for a tax credit or refund of any creditable income tax which was deducted and withheld on income payments shall be given due course only when it is shown that the income payment has been declared as part of the gross income and the fact of withholding is established. Claims for tax credit of any creditable income tax deducted and withheld in a previous period can still be creditable in the subsequent calendar or fiscal year: provided, that the same had been declared in the tax return where the corresponding income is reported."

17.7. Considering the foregoing, creditable withholding taxes are advance income tax payments of an entity. Even before filing the income tax return, a taxpayer had already remitted a portion of its income tax liability through withholding agents who withheld and remitted the same to the BIR. The amount is applied as a tax credit in the income tax returns of an entity by presenting BIR Form No. 2307.

17.8. As of December 31, 2023, the Audit Team observed that CAAP did not include all its available tax credits in its annual ITRs. This resulted in an understatement of its available tax credits by P159.775 million with the BIR, which could have been used to offset future tax obligations. Details are shown in Table 16.

Table 16. Schedule of Tax Credits of CAAP as of December 31, 2023

Particulars	Amount
Tax Credits	
Overpayment of taxes in CY 2020 due to a net loss	P 137,716,513
Creditable withholding taxes as recorded in the WTaS account	128,023,772
Utilization of Tax Credits	
CY 2023 income tax	(27,172,497)
CY 2022 income tax	(22,545,006)
CY 2021 income tax	(9,787,783)
Tax Credits as of December 31, 2023	206,234,999
Remaining tax credits with the BIR as of December 31, 2023	(46,460,058)
Tax credit not included in the ITR as of December 31, 2023	**P 159,774,940**

17.9. The P159.775 million pertained to unutilized tax credits from CY 2020 overpayment of income tax due to the effects of the COVID-19 pandemic, recorded in the *Other Prepayments* account, and the creditable withholding tax from CY 2019 to CY 2023 recorded in the WTaS account. This is concerning as Section 229 of the NIRC specifically mentions that an entity is only given two years from the date of payment to file a claim for erroneously assessed or collected taxes.

17.10. Out of the P46.460 million tax credits filed with the BIR, P43.753 million pertained to creditable withholding taxes recorded in the WTaS account. The year-end balance of the WTaS account was P123.246 million, leaving a balance of P79.493 million yet to be filed with the BIR. The Chief Accountant mentioned that they did not file the amount in CAAP's ITR as they did not have the necessary BIR Form No. 2307 required by the BIR to support the filing or application of the creditable tax. This raised doubts about the existence of the P79.493 million recorded in the WTaS account. Additionally, the reliability of the WTaS account was doubtful as PAS 12 specifically requires that an entity should only record as current tax assets the amount the entity expects to recover from taxation authorities.

17.11. The Chief Accountant asserted that they have been coordinating with the BIR relative to CAAP's tax credits. However, when requested to provide official correspondence with the BIR on the matter, he indicated that he had only made verbal inquiries via phone.

17.12. The issue exposed CAAP to loss due to foregone tax credits if the BIR denies CAAP's claim on filing previous years' creditable withholding taxes as tax credits pursuant to Section 58 (E) of Chapter IX of the NIRC. Further, the failure of the Accounting Division to secure copies of BIR Form No. 2307 rendered the balance of the WTaS account unreliable.

17.13. We reiterated our prior year's recommendations, with modifications, and Management agreed to direct the Department Manager III, the 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.

18. Withholding taxes amounting to P48.467 million at CAAP-HO were not timely remitted to the Bureau of Internal Revenue (BIR) while withholding taxes amounting to P794,664 in AC VI remained unremitted as of year-end.

18.1. This is a reiteration of prior years' observations embodied in the CYs 2021 and 2022 AARs.

18.2. The National Internal Revenue Code of 1997 (NIRC), as amended, defines a withholding agent as any person or entity who is in control of the payment subject to withholding tax and therefore is required to deduct and remit taxes withheld to the government. As a withholding agent, CAAP is required by pertinent laws, rules, and regulations to withhold creditable withholding taxes and remit them within the prescribed period.

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

18.4. Audit of the *Due to BIR* account revealed that out of P298.671 million taxes withheld from December 2022 to November 2023 at CAAP-HO, only P250.204 million were remitted to the BIR within the prescribed period. The remaining P48.467 million were remitted beyond the prescribed period.

18.5. Furthermore, the Audit Team observed that P0.795 million in taxes withheld at AC VI were not filed nor remitted, contrary to the above-mentioned guidelines. The unremitted withholding taxes primarily consisted of withholdings from previous years amounting to P375,787 and current-year withholdings by Antique Airport amounting to P304,716. According to the personnel in charge at Antique Airport, they focused primarily on the remittance of compensation taxes, overlooking other withheld taxes.

18.6. We stressed that the untimely remittance of withholding taxes may result in the imposition of penalties against erring CAAP officials and employees pursuant to Section 255 of the NIRC which states, among others, that any person required to pay any tax, make a return, keep any record, supply accurate information, withhold or remit taxes withheld, or refund excess taxes withheld on compensation, at the time required by prevailing laws, rules and regulations, in addition to other penalties provided by law, upon conviction thereof, be punished by a fine of not less than Ten Thousand Pesos (P 10,000) and suffer imprisonment of not less than one (1) year but not more than ten (10) years.

18.7. We reiterated our previous years' recommendations, with modification, that Management instruct the:

18.8. Department Manager III, Finance Department at CAAP-HO to:

a. Oversee the process of withholding and remittance of taxes by designating personnel outside the Accounting Division who will be in charge of monitoring the accurate and timely withholding and remittance of taxes;

b. Judiciously review the filing and remittance of withholding taxes;

18.9. Accountant in AC VI to:

c. Reconcile the *Due to BIR* account and cause the remittance of all duly withheld taxes; and

d. Strictly comply with the provisions of law as regards the timely remittance of taxes to avoid penalty.

18.10. In AC VI, Management commented that prior years' balance amounting to P375,787 in the *Due to BIR* account could no longer be reconciled due to the absence of records. As to the current deficiencies, they will reconcile the noted balances and make the necessary adjustments, if warranted.

19. Service fees amounting to P86.687 million paid to Air Carriers were not supported with VAT (Value-Added Tax) Official Receipt (OR).

19.1. Section 9.1 of CAAP MC No. 022-17 (series of 2017) re: *Service Fee* provides that, “in consideration for collecting, handling, and remitting the DPSC receipts, the collecting Air Carrier shall be entitled to a **3.5% service fee** based on gross DPSC collected per flown non-exempt passenger.”

19.2. Related to the above, BIR RMC No. 122-2021 dated December 14, 2021, re: *Clarifying the Tax Treatment of Integrating the Passenger Service Charge at the Point of Sale of Airline Tickets*, provides that, “Payment of service fees by Airport Authority to the Airline Company shall be governed by the rules on government money payments […] The Airline Company shall issue a VAT Official Receipt to acknowledge receipt of the service fees from the Airport Authority.”

19.3. The same RMC also provides that should the airline company opt to remit the IPSC to the Airport Authority *net of the Service Fees it charged*, the same rules as above shall apply. The Airport Authority shall issue a VAT official receipt to the airline company […] and at the same time, the airline company shall likewise issue a VAT Official Receipt to the airport authority for the service fees.

19.4. In CY 2023, the total amount of service fees paid by CAAP to various Air Carriers in consideration for collecting, handling, and remitting the DPSC receipts amounted to P86.687 million. However, the corresponding Creditable Input Taxes from the payment of service fees equivalent to P9.288 million were unrecorded in the books of accounts and, therefore could not be utilized, due to non-issuance of VAT-ORs of Air Carriers to CAAP.

19.5. The AD explained that they did not require the Air Carriers to issue VAT OR due to the absence of a specific provision in the 2016 MOA and CAAP MC No. 022-17 requiring them to do so. Although they were not able to utilize the creditable input tax to reduce the VAT payable, they were still able to deduct the gross amount of service fee from the taxable income as an outright expense.

19.6. The Audit Team would like to emphasize that the provisions of BIR RMC No. 122-2021 governing the invoicing and recording of DPSC was a sufficient basis to require the Airline Carriers to issue a VAT-OR as evidence and acknowledgment of the receipt of service fees from CAAP. Non-compliance thereto was contrary to BIR regulations.

19.7. We recommended that Management require the Air Carriers to issue VAT-Official Receipts for service fees paid by CAAP, in compliance with the provisions of RMC No. 122-2021.

19.8. Management commented that they would request the Air Carriers to issue VAT ORs to acknowledge receipt of the service fee paid by the Authority for the collection of DPSCs on behalf of CAAP.

19.9. The Audit Team appreciates Management’s commitment to implement the recommendation.

20. Non-reduction of Service Fees (SF) paid to Air Carriers to match the rates charged by its counterpart agency, MIAA, led to a missed opportunity for CAAP to save P18.576 million in CY 2023

20.1. In CY 2017, MIAA negotiated with the Air Carriers for the reduction of the 3.5 per cent service fees. Section 9 of MIAA MC No. 18 (series of 2019) dated August 15, 2019, provides that, in consideration for collecting and remitting the IPSC and DPSC receipts, the collecting Air carrier shall be entitled to a service fee of **2.95 per cent** from *June 2019 to May 2020* and **2.75 per cent** - from *June 2020 – onwards*.

20.2. Audit revealed that the rate of the service fee paid by CAAP to the Air Carriers in consideration for collecting, handling, and remitting the DPSC receipts remained at **3.5 per cent** or **0.75 per cent higher** than MIAA's current rate.

Table 17. Unrealized government savings in the payment of service fees

CY 2023 Total Remittances of DPSC	**P 2,476,764,449**
Multiplied by: 0.75% Difference in rate of SF *(3.5% - 2.75%)*	x 0.75%
Unrealized Government Savings in CY 2023	**P 18,575,733**

20.3. Had CAAP Management immediately revisited and amended MC No. 022-17 to align with MIAA's rate, the Authority could have realized savings as high as P18.576 million from the service fees paid to Air Carriers in CY 2023 alone.

20.4. We recommended that Management instruct the *Business Development Division (BDD)* to expedite the formulation of amended implementing guidelines for the integration of DPSC at the point of sale of airline tickets, particularly on reducing the rate of service fees paid to Air Carriers to align with the revisions made by MIAA.

20.5. Management commented that CAAP will include a reduction in service fees in the Circular that is being amended.

20.6. The Audit Team looks forward to the immediate reduction of service fee rates paid to Air Carriers to achieve substantial government savings.

21. CAAP did not exert sufficient measures to ensure the collection and settlement of receivables recorded in the *Other Receivables* account amounting to P50.756 million.

21.1. COA Circular No. 2023-008 dated August 17, 2023, provides the necessary guidelines on the write-off of dormant balances. Section 10.2 of the Circular states that the Head of the Accounting Unit shall ensure that current transactions and those below ten years are properly documented and appropriately acted upon to avoid being dormant.

21.2. As of December 31, 2023, the *Other Receivable* account had a balance of P50.756 million, broken down in Table 18.

Table 18. Breakdown of Other Receivables as of December 31, 2023

Particulars	Amount
Unliquidated cash advances of retired resigned, and separated employees	P 29,581,975
Receivable from the Federal Aviation Authority of the United States of America	10,155,763
Unsubstantiated balance	8,618,195
Receivables from former Collecting Officers due to undeposited collections	894,417
Unliquidated cash advances of the Office of the Government Corporate Counsel (OGCC) Lawyers	641,739
Receivables for Daily Subsistence Allowances of inspectors in 2018	363,517
Receivables from employees, debtors, and entities not falling under any of the specific receivable accounts	281,995
Unliquidated cash advances of flight inspectors for Daily Subsistence Allowances paid by stakeholders	218,009
Balance, December 31, 2023	**P 50,755,610**
Allowance for Impairment	**9,376,734**
Carrying value	**P 41,378,876**

21.3. The unliquidated cash advances of retired, resigned, and separated employees included cash advances amounting to P20 million for confidential funds by former CAAP Director Generals for the period CY 2009 to CY 2011. Due to some deficiencies/errors in the liquidation documents previously submitted by CAAP, the Intelligence and Confidential Fund Audit Unit (ICFAU), Commission on Audit, issued two Audit Observation Memoranda (AOMs). In compliance with the audit recommendation, CAAP resubmitted the liquidation report for cash advances amounting to P10 million to the ICFAU on January 18, 2023. However, as to the other AOM, CAAP was retrieving the necessary documents for submission to ICFAU. No demand letters were issued for the collection of the balances.

21.4. The receivable from the Federal Aviation Authority (FAA) of the United States of America represented CAAP's claim from the FAA relative to an engagement in CY 2016 amounting to P10.156 million. The FAA agreed to provide CAAP temporary duty assignments of two Safety Specialists and one Subject Matter Expert with backgrounds in airworthiness, operations, and/or other expertise, as appropriate, who are competent in applying recommended practices outlined in Annexes 1, 6, and 8 to the Convention on International Civil Aviation. As of year-end, despite the AOM previously issued in CY 2021 and CY 2022, CAAP had yet to provide any documentation to support that the said engagement was indeed accomplished. Management likewise could not provide documents relative to the project initiated through a MOA entered into by CAAP only seven years ago. It raised doubts as to whether the project was indeed completed. Further, we noted that CAAP sent an email to the FAA on August 1, 2023, to inquire about the status of the project but CAAP had not received any reply.

21.5. Meanwhile, despite previous recommendations from the Audit Team for CAAP to exert effort to locate supporting documents for receivables amounting to P8.618 million, CAAP had yet to fully explain and substantiate the existence of the account balance.

21.6. The receivables from former collecting officers amounting to P0.894 million pertained to undeposited collections of two collecting officers from CY 2013 to CY 2014. Both collecting officers were no longer connected with CAAP and the balance remained unsettled.

21.7. The unliquidated cash advances of both inspectors and OGCC lawyers amounting to P218,009 and P0.641 million, respectively, included current and long outstanding cash advances. Many of the inspectors were no longer connected with CAAP. While the Enforcement and Legal Service were coordinating with personnel from the OGCC, we noted that no demand letters were issued for the liquidation of the subject advances.

21.8. The receivable for the daily subsistence allowance of inspectors amounting to P363,517 was a CY 2018 transaction that CAAP had yet to collect as of year-end.

21.9. The Audit Team noted minimal efforts from Management to pursue the collection of these receivables. We observed that relatively few demand letters had been issued in CY 2023 to initiate the collection of the balances. Likewise, Management had yet to reconcile its records to determine the unsubstantiated balances amounting to P8.618 million and to determine if the project with the FAA was indeed accomplished. Similarly, CAAP had not yet submitted liquidation documents to ICFAU to settle the balance. Furthermore, no requests for write-off in accordance with COA Circular No. 2023-008 had been initiated to cleanse the account of dormant balances.

21.10. The non-collection of the balances deprived CAAP of funds it could use to further accomplish its mandate.

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

a. Instruct the Department Manager III and the Chief Accountant to:

i. Coordinate with ICFAU and expedite the retrieval and submission of the required documents to, once and for all, liquidate the long outstanding cash advances;

ii. Intensify efforts to locate the documents to support the unsubstantiated receivables, identify the details and nature of the transactions, prepare and maintain the corresponding subsidiary ledgers, and determine whether these receivables are still collectible;

iii. Issue demand letters to OGCC lawyers, inspectors, and former officers and employees of CAAP to pursue the collection of

their outstanding balances recorded under the *Other Receivables* account. The Department Manager III, Finance Department ensure that the Audit Team be furnished a copy of the issued demand letters;

iv. **Coordinate with the OGCC the unliquidated cash advances of its lawyers with CAAP;**

v. **Communicate with the FAA and follow up on the inquiry about the status of the project. If the agreed-upon objectives outlined in the MOA were not achieved, request for refund of the amount previously paid to the FAA; and**

b. **Direct the FSIS to submit pertinent documents to support the completion of the project between FAA and CAAP to the Accounting Division, otherwise, explain the unavailability of the necessary documentation or why the project was not completed.**

21.12. The Management expressed their commitment to comply with the audit recommendations.

21.13. Management explained that the Enforcement and Legal Service (ELS) had already prepared the necessary documents for the liquidation of cash advances of OGCC lawyers amounting to P182,660. They raised that the ELS had committed to coordinate with the OGCC for the liquidation of the remaining cash advances.

21.14. Management added that the Accounting Division is already working on the identification of the unsubstantiated balance.

21.15. Further, the management also sent two follow-up letters to the FAA but had not received any response yet. They planned to communicate with other FAA officials who might have information regarding the agreement.

22. Penalties amounting to P44.773 million remained uncollected despite the issuance of demand letters, which was inconsistent with Item 7.1.17 of the Terms and Conditions of the Contract with the Service Provider, thus, precluding CAAP from using the funds for other priority projects, plans, and programs.

22.1. This is a reiteration of the audit observation embodied in CYs 2021 and 2022 AAR.

22.2. Item 7.1.17 provides that "the Security Agency authorizes CAAP to exact penalty or to deduct an amount equivalent for the offenses or violations committed by the contractor and its security personnel as specified in the Table of Offenses/Violations and Penalties."

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

22.4. Audit disclosed that AC I Management did not impose the full extent of penalties following the Table of Offenses. Instead, the Area Center implemented the unnumbered memo from the former Director General of CAAP, which limited the penalties to 10 per cent of each progress billing instead of the actual amounts for the violations.

22.5. In September 2023, the CAAP HO, through its Enforcement and Legal Service (ELS) issued a final demand letter for penalties amounting to P44.773 million to the Service Provider. In response to the demand letter, they submitted a written request for reconsideration with regard to the amount of penalties. In October 2023, a series of meetings at CAAP HO was conducted to confirm and finalize the amount of liquidated damages but during that time, the Service Provider did not provide the documents relative to CY 2019 transactions. Subsequently, the Service Provider submitted the required documents. However, the CAAP HO had yet to determine the final amount of penalties.

22.6. As of December 31, 2023, based on the Table of Offenses, the Audit Team computed the penalties amounting to P44.773 million.

22.7. Had Management strictly enforced the collection of the penalties provided for in the terms and conditions of the agreement, accumulation of the same would have been avoided. More funds would have been available to finance other priority projects, plans, and programs of the CAAP.

22.8. We reiterated our prior year's recommendations, with modification, that AC I Management direct the concerned Finance personnel to:

a. Recognize in the books of accounts the final amount of penalties and the related receivable; and

b. Deduct the final amount of accumulated penalties from every succeeding billing, in addition to the amount equivalent to the offenses or violations for the period, pursuant to the terms of the contract agreement.

22.9. AC I Management commented that the Area Accountant was waiting for the final determination of penalties by the CAAP HO.

23. The lack of well-defined policies and controls to optimize the billing and collection process of water and electric charges to concessionaires at the CAAP-Head Office resulted in the non-collection of unbilled utilities by at least P10.196 million as of December 31, 2023.

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

23.2. Sections 1.8, 3.2, and 3.11 of the Contracts of Lease for Concession (CLC), provide that the monthly rental fee shall be exclusive of utilities and maintenance/service charges and the obligation to pay thereof shall accrue and payable without demand. The lessee shall pay all expenses for electricity, water, telephone, garbage collection, and disposal services in the leased premises. Likewise, the lessee shall also be charged based on the actual sub-meter reading should the electric and/or water services of the lessee be connected with or procured from the Lessor's electric and/or water lines.

23.3. Meanwhile, Part V (F) of the 2017 CAAP Concession Policy Manual re: *Concession Business Terms* provides that: "*Utility charges are calculated by the Finance Department (central office or airport)* and *applied on an annual or monthly basis*. *Computation will rely on the measured space established in the concession agreement*. *For concessionaires with separate meters or sub-meters, charges will be computed.*"

23.4. Analysis of the *Rent/Lease Income* account, and the related *Operating Lease Receivable* revealed that as of December 31, 2023, at least P10.196 million of estimated water and electric charges from CYs 2018 to 2023, were unbilled/uncollected from the lessees in CAAP-HO.

23.5. The unbilled and uncollected utilities arose from the lack of clear-cut policies and controls, i.e. delegation of tasks, oversight, and review mechanisms, in the billing and collection processes for water and electric charges of concessionaires in CAAP-HO. The Audit Team also found out the following:

23.5.1. Monthly billing statements for water and electric charges were not promptly and regularly issued to the concessionaires. This resulted in accumulated charges being billed on a lump-sum basis, spanning more than one year;

23.5.2. The monthly billings from both Maynilad and Meralco, initially received by the concerned CAAP offices where the leased premises are located, and the supporting computations for the concessionaires' shares of water and electric charges, prepared by the Buildings and Grounds Maintenance Service (BGMS), were not regularly submitted or properly endorsed to the Billing Section of Accounting Division;

23.5.3. Despite the installation of electric and water sub-meters in the respective leased premises, regular meter readings and/or monitoring of the concessionaire's actual consumption were not conducted;

23.5.4. No clearly defined guidelines and policies in place to designate responsibility for the monthly reading/monitoring of the installed sub-meters in each location. Additionally, the requirement for the originating offices to regularly submit to BDD the source documents, as enumerated in letter (b), was not established; and

23.5.5. CAAP had been paying the full amount of Maynilad and Meralco monthly billings over the years without strictly enforcing the collection of the corresponding shares of the concessionaires in the total amount due for utilities.

23.6. The accumulation of unbilled/uncollected water and electric charges could have been prevented with a periodic review of the concessionaires' compliance with the terms and conditions of the contract and keen monitoring of their payments. These uncollected charges deprived the Authority of funds that could have been used in its operations.

23.7. We recommended that Management instruct the following:

23.8. Internal Audit Services in coordination with the Business Development Division:

a. Conduct a periodic review of operations, processes, and activities, particularly those embodied in the CAAP Concession Manual. Identify areas for enhancement and propose necessary improvements for approval by Top Management/Board of Directors;

b. Establish a clear-cut policy embedding the necessary controls within the billing and collection processes concerning concessionaires' water and electric charges to address the root causes of operational deficiencies identified within these processes;

23.9. Accounting Division:

c. Expedite the preparation and issuance of billing statements and henceforth, ensure the timely and regular issuance of monthly billings for water and electric consumption of all concessionaires; and

23.10. Buildings and Grounds and Maintenance Service:

d. Collaborate with the Business Development Division to diligently gather all relevant documentation and data required to compute the exact amount of unbilled or uncollected water and electric charges from concessionaires for the years 2018-2023.

23.11. Management commented that on March 25, 2024, the AD, BDD, BGMS, and FICG held a meeting and discussed the processes relative to issues concerning concessionaires. The points of the different offices were established and considered by the BDD to further strengthen the provisions in the Concession Manual. This was also intended for the drafting of the policy for billing and collection of utilities of concessionaires to address areas where guidance is lacking.

23.12. Meanwhile, the AD-HO had already issued the billing statements for the utilities of the concessionaires for the current year. As to the unbilled utilities for CY 2018-2023, the gathering of data was still ongoing.

24. Results of confirmation of receivables from lessees disclosed a variance of P1.785 million and an unconfirmed amount of P 341,886

24.1. Confirmation letters were sent to the six lessees at the CAAP-HO to ensure the accuracy of account balances. Results thereof showed a total variance of P1.785 million, between the book balances and lessees' records, thus, casting doubt on the accuracy and reliability of the account balance. Details are shown in Table 19.

Table 19. Results of Confirmation

No. of Lessees	No. of Debtors	SL Balance as of December 31, 2023	Per Confirmation	Variance/ Unconfirmed Balance
With confirmation	5	P 2,231,779	P 446,911	**P 1,784,868**
Without confirmation	1	341,886	No reply	**341,886**
	6	**P 2,573,665**	**P 446,911**	

24.2. The variance between the SL balances as of December 31, 2023, and the amount confirmed can be attributed to the lack of established policies and controls in the overall billing and collection processes. This issue was compounded by deficiencies identified in the preparation and issuance of billing statements, as well as in monitoring payments.

24.3. In the case of the former CAAP-HO's Canteen Concessionaire, verification disclosed that the outstanding balance per book pertained to unpaid rental charges and utilities from October 2019 to September 2020. Despite receiving a Demand Letter from the BDD in March 2020, a Notice of Violation in August 2020, and the Cease and Desist Order in October 2020, the lessee did not settle the billed/demanded amount of P341,886 as of December 31, 2023. Consequently, all furniture, equipment, structures, and accessories left by the concessionaire in their leased premises were temporarily retained as a lien pending settlement of their obligation.

24.4. If regular monitoring and reconciliation of records had been conducted, these receivable balances could have been collected and funds could have been utilized by the Authority in fulfilling its mandate.

24.5. We recommended that Management instruct the Accounting Division to:

a. Investigate and determine the causes of the variance between CAAP's and lessees' book balances, reconcile with the lessees' records, and take up the necessary adjustments in the books of accounts if warranted; and

b. Collaborate with the *Business Development Division* and *Enforcement and Legal Service* to devise concrete action plans and remedies to enforce the collection of outstanding balances of the former CAAP-HO's Canteen Concessionaire.

24.6. Management commented that the AD-HO and BDD had already coordinated the variances noted to the concessionaires for reconciliation.

24.7. As to the former CAAP's Canteen Concessionaire, the BDD requested the Enforcement and Legal Service to issue a new demand letter and seek other avenues to recoup its outstanding obligation.

25. Recurring delays persist in the approval/renewal of Contracts for Lease for Concessions, both at the CAAP-Head Office and across all Area Centers manifests inadequate internal control measures.

25.1. The 2017 CAAP Concession Manual provides that no automatic extension or renewal to any concession or service agreement. Negotiation with an existing concession or operator for renewal or extension of term will commence with a Request for Renewal/Extension of Concession to CAAP BDD, by the Concessionaire/party who entered into a contract with CAAP, no more than six months before the expiration of the existing agreement.

25.2. Majority of the business concessions were granted within the airport's premises. The evaluation and processing of concession applications across all CAAP Area Centers were being conducted by the BDD at the CAAP-HO. The BDD coordinated with the ACs' Managers and Airport Managers to gather comments and recommendations on the applications. The Director General (DG) executed the final approval of the CLCs for new applications while the Chief of the Corporate Planning Office was authorized to approve and sign on behalf of the DG for CLCs subject to renewal.

25.3. Based on the Concession Masterlist from BDD, as of January 2024, 445 out of 929 CLCs for CY 2023, or 48 per cent of the total CLCs covering the concessionaires in CAAP-HO and all ACs, were still in process. The BDD attributed the recurring delays to the high volume of CLCs requiring approval or renewal, receipt of incomplete documentary requirements, and lack of manpower throughout the process.

25.4. Meanwhile, the AD expressed concerns regarding the issuance of billing statements to concessionaires in CAAP-HO amid pending CLC renewals. The delayed CLC renewals had left the AD without a firm and definite basis for determining the applicable fees and charges beyond those specified in the expired lease contracts.

25.5. Permitting lessees to continuously use and occupy government facilities without a valid/unexpired lease contract contravened the principle of sound internal control aimed at safeguarding the rights and interests of both the Authority and the lessees. The absence of a valid contract/agreement exposed government facilities to legal, financial, and operational risks.

25.6. It was noteworthy that a centralized approval and renewal process for all CLCs may no longer be considered efficient or practical. The BDD would need to handle requests from all concessionaires across CAAP airports nationwide simultaneously, making it challenging for the DG and the Chief of the Corporate Planning Office to expedite the approval/renewal of their CLCs.

25.7. We recommended that Management:

a. Consider decentralizing and/or delegating signing authorities to the Area Centers/Airport Managers, based on the nature and scope of the lease contracts, to streamline the CLC approval and renewal process; and

b. Instruct the Business Development Division to furnish the Accounting Division at CAAP-HO and all Accounting/Billing Units in the Area Centers with an official list of concessionaires, including the agreed-upon monthly rental rates and charges for renewal. This will serve as the basis for preparing the subsequent monthly billing statements, thus, ensuring a consistent and timely issuance of statements while awaiting CLC renewals.

25.8. Management commented that in February 2024, the Finance Team prepared a report on the list of concessionaires without approved contracts for updating the BDD.

25.9. Meanwhile, the BDD also provided the AD in CAAP-HO and all ACs an online viewing access to the master list of concessions.

25.10. The Audit Team emphasized the necessity for BDD to ensure the timely and regular updating of information on the master list, which would serve as the basis of AD in preparing subsequent monthly billing statements while awaiting lease contract renewals.

26. Outdated schedule of rental fees and charges utilized by the Authority, as outlined in DOTC DO No. 98-1178, CAAP Circular No. 001-2008, and DOTC Order No. 2007-25, thus, CAAP was losing the potential revenue that could otherwise support the fulfillment of its mandate.

26.1. Section 17 of Republic Act No. 9497, Civil Aviation Authority Act of 2008 provides that: "*The Authority shall adopt and publish its schedule of fees and charges. The Authority shall hold such public hearings or consultative meetings with stakeholders in the industry before adopting its schedule of fees and charges. The Authority shall not revise its schedule of fees and fines more often than once every three (3) years*."

26.2. As of this date, the schedules of rates in use across all airports managed by CAAP were as follows:

Table 20. Summarized Schedules of Rental Fees in all CAAP Airports

Leased Premises Classification	***Range of monthly rental fees per floor space and/or per sq.m. of floor area:***		
	DOTC Department Order No. 98-1178* dated September 3, 1998	**DOTC Order No. 2007-25** [Revised Schedule of Fees and Charges for **Davao International Airport** effective August 28, 2007]	**CAAP Circular No. 001-2008** [Revised Schedule of Fees and Charges for **New Iloilo International Airport and New Bacolod-Silay International Airport** effective January 1, 2009]
Airport Passenger/Cargo Terminal Buildings	P50.00 – 100.00 *(serving international flights)* P20.00 – 50.00 *(serving national/domestic flights)* P500/hr or a fraction thereof *(Usage of VIP Lounge)*	P100.00 – 300.00 *(Airlines, Commercial establishments, and Government Offices)* P1,000.00/hr or fraction thereof *(Usage of VIP Lounge)*	P200.00 *(Airlines, Commercial establishments, and Government Offices)* P2,000.00/hr or a fraction thereof *(Usage of VIP Lounge)*
Other Airport Buildings *(Hangars and Other Buildings)*	P10.00 – 30.00	P45.00	P120.00
Airport land areas	P5.00 *(developed areas)* 10.00 *(undeveloped areas)*	P 20.00 *(located within the new Terminal Bldg.)* P16.00 *(other airport land areas)*	P 50.00 *(land located within the new Terminal Bldg. and developed area)* P25.00 *(other airport land areas)*

**Schedule of rental fees for all airports managed by CAAP, except for Davao International, New Iloilo International Airport, and New Bacolod-Silay International Airport with separate revised schedule fees and charges.*

26.3. The rates shown in Table 20 above have been in use since their implementation up to the present. CAAP had neither increased these rates nor published new ones.

26.4. Considering the effects of inflation and the time value of money over the past 25 years (from CY 1998 to 2023), the above rental fees and charges were now relatively low and no longer aligned with current industry rates. Consequently, the Authority had been missing out on potential revenue for continuously using the outdated rates adopted by ATO since 1998.

26.5. We recommended that the Authority adopt and publish an updated schedule of rental fees and charges for CAAP-HO and all Area Centers pursuant to the provisions of Section 17 of Republic Act No. 9497.

26.6. Management commented that revisions on the airport fees and other charges were ongoing. Management also claimed that they were expecting to implement the revised schedule within the year.

27. The payroll process of CAAP-HO lacked the necessary checks and balances, which contravened the Internal Control Standards for the Philippine Public Sector (ICSPPS), thereby exposing CAAP to erroneous disbursements of funds and/or fraud.

27.1. COA Circular No. 2018-003 dated November 21, 2018, prescribes the use of the Internal Control Standards for the Philippine Public Sector (ICSPPS). The standard states that the head of the agency is directly responsible for designing, implementing, maintaining, and evolving a system of evaluation of the internal control system. It likewise prescribes that no singular individual or team should control all stages of a transaction or event to reduce the risk of error, waste, or wrongful acts, and the risk of not detecting such issues. It requires that duties and responsibilities should be assigned systematically to ensure that effective checks and balances exist. Key duties include authorizing, processing, recording and reviewing transactions.

27.2. Based on the approved Administrative and Finance Service (AFS) Operations Manual, the payroll process of CAAP can be summarized through the following steps/procedures:

27.2.1. The Human Resource Management Division (HRMD) prepares the Payroll Register, Disbursement Vouchers (DVs), Budget Utilization Request and Status (BURS) and other relevant documents. The Chief of the HRMD certifies that the expenses are necessary, lawful, and incurred under her direct supervision and that the supporting documents are valid, proper, and legal. The documents are then forwarded to the Budget Division.

27.2.2. The Chief of the Budget Division checks the availability of the budget and signs the BURS. The documents are forwarded thereafter to the Accounting Division.

27.2.3. The Accounting Division reviews the accuracy of the payroll register and the completeness of the supporting documents. If there are inconsistencies in the amount or missing documents, the Accounting Division returns the files to the HRMD for further action. A Notice of Budget Utilization Request and Status Adjustment (NBURSA) is likewise prepared and routed for approval to account for any adjustments in the already signed BURS. If the supporting documents are complete and the amount claimed is proper, the Chief Accountant certifies to such effect and thereafter the Journal

Entry Voucher (JEV) to record the transaction is prepared and the index of payment is updated. The DV along with the supporting documents are then submitted to the Chief of Finance Department for approval of the payment. The documents are then forwarded to the Checking Section for payment.

27.3. The Audit Team observed that CAAP did not follow the aforementioned procedures. Instead, the HRMD submitted the payroll register, DV, and BURS to the Accounting Division for validation. The Accounting Division validated the amount in the payroll register, and any errors noted were directly corrected by the Accountant. The Accountant was also responsible for correcting the amount in the DV and the BURS. Subsequently, the Accounting Division forwarded the documents to the Budget Division to certify the availability of funds. The documents were then returned to the Accounting Division for the approval of the JEV and the updating of the index of payment. The Chief Accountant signed the DV to certify the appropriateness of the amount claimed and the completeness of supporting documents. Finally, the documents were forwarded to the Chief of the Finance Department for approval of the disbursement.

27.4. The practice currently employed by CAAP lacked the necessary internal controls and effectively diminished the necessary checks and balances required by the ICSPPS. The Finance Department, specifically through the Accounting Division, essentially conducted all the key duties of authorizing, processing, recording, and the review of the payroll process. The Chief of the Finance Department was responsible for authorizing the payment. Her approval relied, among others, on the certification by the Accounting Division that the supporting documents attached to the Disbursement DV were complete and that the amount claimed was appropriate. Moreover, since the Accounting Division directly corrected any error in the payroll register, DV, and BURS without prior notice to the HRMD who was primarily responsible for the accuracy of the payroll register, the Accounting Division effectively combined the processing and review procedures in the payroll process into one. Further, the recording of transactions in the books of accounts is an inherent function of the Accounting Division.

27.5. The HRMD, as the process owner of the payroll and the custodian of information relating to employees, was responsible for ensuring the accuracy of the payroll register. Meanwhile, it is recommended that the Accounting Division limit its involvement in the payroll process to reviewing supporting documents, verifying the propriety of the amount claimed, and recording the transactions. Any errors identified during its review needs to be communicated to the HRMD for record verification and updating of the payroll register.

27.6. The Accounting Division explained that the practice had been employed to expedite the processing of payroll and meet the target schedule for releasing the salaries of CAAP employees. We learned that the process was also adopted to circumvent the preparation of the NBURSA due to the numerous and frequent errors noted by the Accounting Division during the review of the payroll register. While we acknowledged the importance of paying CAAP employees on time, there was no need for CAAP to compromise its internal controls in doing so.

27.7. We emphasized that the NBURSA is only necessary to account for adjustments in the budget utilization initially recorded in the BURS. Hence, the preparation of the NBURSA can altogether be avoided if the HRMD would commit to meticulously and accurately prepare the payroll register to prevent errors during the Accounting Division's review process.

27.8. It bears emphasis that the HRMD had access to all the necessary information to prepare an accurate payroll register and there is no need to rely on the Accounting Division for this task. Additionally, the Audit Team observed that the HRMD submitted the payroll register and all the necessary documents to the Accounting Division only in the first week of the payroll month, leaving insufficient time for the review and subsequent correction of the payroll register considering that the payroll payouts of CAAP is scheduled on the 15th and 30th of every month.

27.9. Moreover, the Audit Team observed various issues/deficiencies in the payroll process of CAAP, as contained in the AFS Operations Manual, to wit:

27.9.1. The Accounting Division prepared JEVs for the payment of the payroll and updated the index of payment before actual disbursements occurred. JEVs are forms used to record transactions in the books of accounts of an entity. Hence, the preparation and recording of JEVs come after the actual transaction takes place. Similarly, the index of payment is updated only after actual disbursements have taken place.

27.9.2. There was no established mechanism or process for monitoring deductions related to leave without pay, tardiness, undertime, or loan amortization.

27.10. There had been instances where the leave without pay deductions and Pag-IBIG Multi-Purpose Loan amortizations for several CAAP employees were continuously deducted despite said deduction being already made and/or loans already matured. Although the deducted amount was subsequently refunded to the employees, this reflected inefficiency in the process which resulted in unnecessary deductions from the employees.

27.11. We recommended that Management instruct:

a. The Chiefs of both the HRMD and the Finance Department to initiate the revision of the AFS Operations Manual, particularly those involving the payroll process to include a defined process for monitoring deductions, the appropriate and timely preparation of JEVs, and the updating of index of payments, the appropriate timeline for the submission of the DVs, BURS and the payroll register to give ample time for the review and correction process, and incorporating necessary checks and balances within the payroll process. It was likewise recommended that the Management involve the Internal

Audit Service to ensure that appropriate internal controls are embedded in the revised process;

b. **The Chief, HRMD, to commit to the meticulous, accurate and timely preparation of the payroll register to ensure the timely payment of salaries and wages of CAAP employees while maintaining essential internal control policies;**

c. **The Chief Accountant to only review and validate the payroll register and thereafter submit its review comments to the HRMD for their appropriate action in updating the payroll register; and**

d. **The Chief Accountant to prepare the JEVs to record the payment of the payroll and update the index of payments only after the disbursements have been made.**

27.12. Management acknowledged that the current AFS Manual published in 2019 does not respond to the current times. They had proposed a new process that highlighted the streamlined number of days for processing and use of Google Sheet tools for parallel reviews of HRMD, Accounting, and Budget.

27.13. Management likewise raised the continuance of the practice of the Accounting Division of directly writing their review comments on the payroll register, provided that they would, from now on, notify HRMD of these corrections and that the latter acknowledge the appropriateness of these changes.

27.14. Further, they commented that the Accounting Division would only record transactions after payouts have been made and recorded in the corresponding Cash/Check Disbursement Journal.

27.15. The Audit Team encouraged the Management to involve the Internal Audit Service to ensure appropriate internal controls are in place in the proposed process.

27.16. As to the practice of the Accounting Division directly writing their review comments on the payroll register, we recommended that Management require the HRMD to not only acknowledge the correction advice by the Accounting Division but also to issue a certification that they can verify the accuracy of the corrections and that the source/master file of the payroll register has been duly corrected. We stressed that the HRMD had all the necessary information to accurately prepare the payroll register and there is no need to rely on the Accounting Division for its accurate preparation. This certification would ensure that the HRMD's master file has been properly corrected to prevent recurring issues in subsequent payrolls.

27.17. While Journal Entry Vouchers were posted only after payouts, we have noted that JEVs were prepared and signed alongside the preparation of the Disbursement Vouchers which might cause confusion.

28. Contracts for Security Services for the CAAP Head Office (HO) and all Area Centers (ACs) were continuously extended beyond the allowable period, contrary to Section 4.0 of Appendix 24 of 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184.

28.1. Appendix 24 of the 2016 RIRR of RA No. 9184, otherwise known as the *Government Procurement Reform Act*, prescribes the Revised Guidelines on the Extension of Contracts for General Support Services. Section 4 states that:

28.1.1. "Section 4.0 General Conditions for Extension

Procuring entities may extend the duration or effectivity of an ongoing contract about to expire, under the following conditions:

No contract extension shall exceed one (1) year.

The 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 (IRR).

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.

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

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

The current service provider has not violated any of the provisions of the original contract.

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."

28.2. Audit disclosed that the majority of the contracts for security services at CAAP-HO and all ACs had already expired as of December 31, 2023. However, these contracts were only extended on a monthly basis to facilitate the payment for security services. Details are shown in Table 21.

Table 21. Contracts for Security Services of CAAP

Location	Coverage of Contract before renewal	Duration of the Contract Extensions as of December 31, 2023
MAIN OFFICE AND NEARBY FACILITIES	August 1, 2017 to July 31, 2020	3 years and 5 months
Area Centers:		
I	February 1, 2019 to January 31, 2022	1 year and 11 months
II	February 1, 2019 to January 31, 2022	1 year and 11 months
III	August 1, 2021 to October 31, 2021	2 years and 2 months
	April 1, 2019 to September 30, 2019	4 years and 3 months
IV	July 1, 2017 to June 30, 2019	4 years and 6 months
V	January 1, 2020 to December 31, 2022	1 year
VI	August 1, 2013 to July 31, 2014	9 years and 5 months
VII	March 1, 2023 - February 28, 2026	N/A
VIII	March 16, 2016 - March 15, 2017	6 years and 9 months
IX	June 1, 2014 to May 31, 2015	8 years and 7 months
X	June 1, 2014 to May 31, 2015	8 years and 7 months
XI	January 1, 2018 to June 30, 2018	5 years and 6 months
XII	November 1, 2022 to October 31, 2025	N/A

28.3. As indicated in the above table, except for ACs VII and XII, the original contracts of CAAP-HO and the rest of the ACs with their respective service providers for security services had already expired and were being continually renewed or extended to support the payment for security services. Noteworthy, one of the contracts had been extended for more than nine years as of December 31, 2023. This contravened Section 4.0 of Appendix 24 of the RIRR of RA No. 9184 which limits the maximum extension period to only one year.

28.4. CAAP attempted to procure security services in CY 2023; however, the public bidding failed, with CAAP adopting the reservation clause provided under Section 41. b of the RIRR. This clause states that the head of the procuring entity “reserves the right to reject any and all bids, declare a failure of bidding, or not award the contract if the Bids and Awards Committee (BAC) is found to have failed in following the prescribed bidding procedures.” The issue arose after the BAC allowed bidders to submit bid proposals with an administrative fee lower than the mandated 20 per cent, as set forth in RA No. 11917, also known as “*The Private Security Services Industry Act*”.

28.5. Further, the Audit Team reviewed the bidding documents and noted several issues:

28.5.1. Erroneous formula was used in the computation of night shift differential pay and rest days/Sunday overtime pay;

28.5.2. The updated rates for the Social Security System (SSS) Employer Share and the contribution for the Workers’ Investment and Savings

Program (WISP), pursuant to SSS Circular No. 2022-033 dated December 13, 2022, were not considered; and

28.5.3. The rates for Employees' Compensation Commission State Insurance, pursuant to ECC Board Resolution No. 13-10-33 dated October 8, 2014 were not considered.

28.6. While the inconsistencies in the bidding document seemed moot in light of the declaration of failure of bidding, it is imperative for CAAP to exercise prudence in preparing bidding documents for all future endeavors. This is to ensure compliance with existing laws, rules, and regulations governing procurement activities. Likewise, CAAP needs to ensure the timely procurement of security services for all its facilities. This is necessary to permanently stop the irregular practice of continuously extending contracts beyond the allowable one-year period prescribed by RA No. 9184.

28.7. The Audit Team also reminded Management that, according to the RA, contract extensions are only employed to avert hiatus in general support services that are essential, indispensable, or necessary to support the operations of the procuring entity. The RIRR requires that the procuring entity has already substantially undertaken the procurement activities necessary for a new contract award, and under no circumstances can the extension of contracts be used as a means to dispense with the requirement of RA No. 9184.

28.8. We recommended and Management agreed:

28.9. For CAAP-HO and AC III:

a. Strictly adhere to the guidelines set forth in the RIRR of RA No. 9184 by ensuring that all bidding documents are compliant with existing laws, rules, and regulations at the time of procurement; and

b. Initiate the timely procurement of general support services, particularly security services, for all its facilities, to avoid unnecessary contract extensions and ensure compliance with Section 4.0 of Appendix 24 of the RIRR of RA No. 9184.

28.10. For ACs III and VIII:

c. Make representations with the CAAP-HO for a new security services contract and/or request the decentralization of the procurement process for security services to the Area Center level.

28.11. Management commented that the holdover contracts would be discontinued pending the completion of the ongoing procurement activities and that they would adopt measures to ensure that airports would still have sufficient security personnel in place to guarantee the safety and security of the riding public as well as the high-valued CAAP facilities and equipment thereat.

29. Absence of Certificate(s) of Title (COT) or if available, not under the name of the Authority raised question on the validity of CAAP's ownership on several lots.

29.1. Paragraph 2, Section 39 of the PD 1445 provides that the Commission shall require a Certificate of Title or other evidence in favor of the government.

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

29.3. Lastly, Section 8 of the Service Concession Agreement (SCA) provides that the Republic of the Philippines (ROP) has the exclusive responsibility to acquire the Site/Right-of-Way (ROW) for the Caticlan Airport Development Project (CADP) and all lands acquired shall be in the name of the ROP.

29.4. Review of documents revealed the following:

a) Three lots totaling 33,438 sq.m. recorded in the books of accounts of CAAP-HO but without title or not in the name of CAAP

29.5. Information gathered disclosed that CAAP-HO initiated coordination with Manila International Airport Authority (MIAA) through a letter requesting the implementation of the audit recommendations concerning the Civil Aviation Training Center (CATC) Complex and CAAP Condominium, alongside the transfer of title for the lot related to Manila Radar.

29.6. Additionally, the Asset Management Division (AMD) sent request letters to the Department of Environment and Natural Resources (DENR) Region IV-A, Tagaytay City Assessor's Office, and Registry of Deeds, seeking subdivision plans, lot data computation, and technical descriptions needed by ADMS in their evaluation. AMD had been coordinating with the Tagaytay City Assessor's Office for the transfer of ownership pursuant to the Deed of Absolute Sale.

b) Transfer of Certificate of Title (TCT) of two parcels of land totaling 67,846 sq.m. in AC I were not secured.

29.7. The Authority purchased two parcels of land with a total lot area of 67,846 sq. m., located in Barangay Calayab and Barangay Balacad, both in Laoag City.

29.8. However, Management was not able to strictly monitor and obtain the corresponding TCTs by enforcing the terms of the Deed of Absolute Sale for the property located in Barangay Calayab and by following the required registration procedures for the lot located in Barangay Balacad.

c) Deficiencies such as untitled lots, undocumented lots, and other lacking information regarding various parcels of land in AC II.

29.9. The Land Data Schedule of AC II showed a total of 234 lots but examination of documents revealed that only 79 lots were supported with TCTs, 24 lots were with Original Certificate of Title (OCTs) while the other 131 lots were not supported with legitimate proof of ownership. AC II also found out that 35 lots were named under private individuals while 137 lots had no information about their owners. Moreover, relevant information such as the actual lot area of some lots, mode and date of acquisition, and acquisition costs that would support claims of ownership were not provided in the schedules.

d) Various parcels of land in AC V were untitled or without legal documents.

29.10. Parcels of land recorded in the books of accounts of the CAAP Area Center V with a total area of 346,557 sq. m. were not supported by Original/Transfer Certificate of Title under the name of CAAP and 156,849 sq. m. of land had no legal documents on file, thus, ownership of the land was uncertain.

e) Various parcels of land acquired by the Concessionaire/Operator in CADP were not titled under the name of the ROP

29.11. The AC VI Audit Team noted that land titles of various parcels of land acquired by the Concessionaire/Operator with an aggregate amount of P1.974 billion for the site/row of Caticlan Airport were not registered in the name of ROP which is not in accordance with the SCA.

f) Land properties of AC X not in the name of CAAP

29.12. Out of 369 accounted land properties, 352 were titled/registered in the name of previous landowners while some were still named under the Republic of the Philippines, through the Department of Transportation and Communications (DOTC) and were still not covered with Transfer Certificates of Title (TCT) in the name of the CAAP.

g) Ongoing processing of TCTs of parcels of land at CAAP AC XII and Satellite airports, which were subject of audit observations in previous years

29.13. Due to the absence of Certificates of Titles to support CAAP's ownership over several parcels of land, legal ownership and exclusive possession of the said properties were not fully protected.

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

a. RETTF, ADMS, AMD, and ELS of CAAP-HO to coordinate with MIAA to expedite the transfer under CAAP's name the properties under 2015 Partition Agreement (formerly Certificate of Titles on the lots used at CATC with lot nos. 3270-B-3-A-2-J-1 (LRA) PSD-436693 and 3270-B-3-A-2-J-2 (LRA) PSD-436693). Also, verify with MIAA as regards the Manila Radar lot and arrange for the transfer of COTs;

b. ADMS and AMD to process the transfer under CAAP's name the Certificate of Titles on Tagaytay Radar – Site 1 lot; and

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

29.15. **We further recommended that Management direct:**

d. **ACs I, II, V, X, and XII to seek proper legal actions and remedies for the immediate transfer of titles of lots in favor of CAAP and secure the same to support the claim of ownership;**

e. **ACs II, V, and XII to expedite the submission of all the necessary documentation for the processing of the titles of the lands;**

f. **AC I to strictly monitor the enforcement of the terms and conditions of any binding agreement entered into by the Agency concerning its land holdings in order to attain the expected outcome and outputs from the related undertaking;**

g. **AC II to make representation with the Central Office and request for sufficient budget needed in the processing of the transfer of titles to CAAP, which would also include land surveys and construction of complete perimeter fences or walls that would establish boundaries of CAAP lots;**

h. **AC VI Real Estate Titling – Technical Working Group (RET-TWG) to inquire on the status of the titling of the land acquired for the CADP and, if warranted, initiate the transfer of titles under the name of the ROP; and**

i. **AC X to make representation at the Head Office to request for the conduct of land appraisal/revaluation to accurately reflect current market values in the Financial Statements.**

29.16. For CAAP HO, AMD commented that a new MOA was drafted for MIAA properties occupied by CAAP. The said memorandum would be presented to the CAAP Board of Directors.

29.17. In addition, AMD obtained necessary documents, which were forwarded to ADMS for evaluation and to be presented to the Site and Acquisition Committee.

29.18. Management of AC I commented that it had continuously communicated with the vendors on the status of the transfer of the certificate of title to CAAP AC I but had not yet received any reply. Likewise, in a letter reply dated September 21, 2023, Management stated that they requested assistance from the Enforcement and Legal Service (ELS) and the Office of the Government Corporate Counsel (OGCC) in the institution of an action against the vendors.

29.19. Management of AC II committed to follow up on the Program of Work/Proposal submitted to the Budget Division for consideration and required the RET-TWG to proceed. AC II mentioned that Management from the Head Office visited Basco Airport and coordinated with LRA to expedite the titling of various lots, however, due to lack of manpower and insufficient funds, merely a portion of the recorded land account was being processed for titling.

29.20. Management of AC V explained that to reconcile the Accounting Section and Legal and Concession records, they had to obtain first the complete breakdown of lots contained in the appraisal report of Intech Property Appraisal, Inc. and match both records. The said report was the basis of recording of the appraised value of the Land, however, the complete breakdown of the land area in some satellite airports was not provided. They were waiting for the feedback of the Supply Division relative to their request for a breakdown of lots and legal documents such as TCTs.

29.21. The Area VI Management assured that they would coordinate with CAAP HO regarding the titling of land acquired by the Concessionaire/Operator.

29.22. Lastly, the AC X Management confirmed that most of the land properties in Laguindingan Airport were named under DOTr, thus, CAAP had usufructuary rights only. The management would include this concern in the next discussions and meetings with DOTr.

29.23. The Management's efforts of AC II were highly appreciated in complying with the audit recommendations. Concerted efforts with the CAAP HO might help address the issue. The Management needs to be more persistent in coordinating with the proper Office and pursue requests for budget and technical or legal assistance that would enable them to resolve the issues encountered in the acquisition and titling of lots in favor of CAAP.

30. Payment of overtime services in CAAP-HO without the necessary approval was not in accordance with Section 13.2 of Civil Service Commission (CSC) - Department of Budget and Management (DBM) Joint Circular (JC) No. 2 s. 2015 dated November 25, 2015.

30.1. Section 13.0 of CSC-DBM Joint Circular No. 2 s. 2015 dated November 25, 2015, states that the agency head shall be responsible for the formulation and adoption of internal rules and procedures on the rendition of overtime, which shall be circumscribed within the policies and guidelines under the Joint Circular. It also requires that the agency head shall be the one to approve requests for authority to render overtime of employees.

30.2. Meanwhile, CAAP issued a memorandum dated January 7, 2016, relative to the Office Policy and Internal Rules and Procedures on the Rendition of Overtime Services with Pay. The Memorandum requires the use of an Overtime Authorization Slip stating therein the date, time, the work to be rendered, and the work accomplished during the rendition of overtime. It specifies that the slip is required to be submitted one day before the rendition of overtime and shall be signed and approved by the immediate supervisor/division chief and the department manager concerned. Additionally, the Memorandum assigns the immediate supervisor/division chief the responsibility to immediately validate, during the succeeding working day, the work done against the work to be done and to require a written explanation if work is not completed.

30.3. Item 4 of the abovementioned CAAP memorandum outlines the responsibility for approving overtime, assigning it to the Department Manager and, in the case of airports, the Area Manager/Airport Manager.

30.4. The Audit Team observed a lack of documentation indicating that the Director General duly delegated the authority to approve the rendition of overtime to the aforementioned officials. Hence, the provision did not align with Section 13.2 of JC No. 2 which specifies that the Agency head shall approve requests for authority to render overtime services.

30.5. Audit disclosed that the overtime authorization slips were only approved by the immediate supervisor/division chiefs. Further, the prescribed overtime authorization process encouraged post-facto approval contradicting the pre-overtime approval requirement stated in the Memorandum. Although the slip required details of both the work to be done and the work accomplished, it only required one round of approval. This would mean that either the approvers signed the slip before the rendition of overtime was performed when they could not validate whether the work was indeed accomplished, or they signed it afterward, which contradicted the pre-overtime approval required by the Memorandum. Considering both alternatives, we noted that most slips were dated after the rendition of overtime.

30.6. The absence of internal rules and procedures, in consonance with JC No. 2, and duly approved by the Director General cast doubt on the validity of the overtime pay of CAAP-HO.

30.7. We recommended that Management immediately formulate or revisit the internal rules and procedures for the rendition and payment of overtime, ensuring alignment with the guidelines outlined in the CSC-DBM Joint Circular No. 2 s. 2015 dated November 25, 2015.

30.8. Management commented that a memorandum dated December 7, 2023, was issued to remind employees of the documentary requirements set under the 2016 CAAP Memorandum on overtime services.

31. The monetization of leave credits of CAAP-HO employees was not in accordance with Sections 22 and 23 of the Omnibus Rules on Leave Rule XVI of the Omnibus Rules Implementing Book V of the Administrative Code of 1987 and CAAP Memorandum Circular No. 03-19 dated January 24, 2019.

31.1. Rule XVI of the Omnibus Rules Implementing Book V of the Administrative Code of 1987, as amended, also known as the Omnibus Rules on Leave (ORL), is the ruling guideline relative to leave administration in the government sector. Sections 22 and 23 of the ORL state, among others, that officials and employees who have accumulated vacation leave credits of 15 days are allowed to monetize a minimum of 10 days and a maximum of 30 days of their leave credits, provided that at least five days of their leave credits are retained after monetization. The provisions further state that monetization of 50 per cent or more of vacation/sick leave credits may be allowed for valid and justifiable reasons, subject to the favorable recommendation of the agency head and the availability of funds.

31.2. Further, under CAAP Memorandum Circular (MC) No. 03-19 dated January 24, 2019, re: *Amendments in the New Delegation of Authority Manual* of CAAP, monetization of leave credits at the CAAP-HO shall require the recommending approval of the Administrative Department Manager/Assistant Director General, Admin, and Finance and the approval of the Chief Financial Officer for monetization of leave credits of 30 days or more; and the recommending approval of the Human Resource Management Division Chief/Administrative Department Manager and the approval of the Assistant Director General, Admin and Finance Service for monetization of leave credits below 30 days.

31.3. The Audit Team noted that 29 requests for monetization for leave credits amounting to P1.616 million were approved despite employees not having accumulated the required 15 Vacation Leave (VL) credits as specified in the guidelines. Furthermore, there were instances where requests were granted and paid even though the employees did not have sufficient VL credits to retain the mandatory five days after monetization. Any deficiency in VL credits was charged against Sick Leave (SL) credits of the employee to meet the 10-day minimum leave monetization requirement. This, in effect, circumvented the guideline set by the Civil Service Commission that, except for valid and justifiable reasons as identified in Section 23 of the ORL, only VL credits may be monetized.

31.4. Further, the Audit Team observed that requests for monetization of leave credits of 30 days or more were recommended for approval only by the OIC, Human Resource Management Division (HRMD), instead of the Assistant Director General II, Admin, and Finance Service or the Department Manager, Administrative Department as required by the above guidelines. Likewise, requests for monetization of leave credits of less than 30 days were approved by the Deputy Director General for Administration, instead of the Assistant Director General II, Admin and Finance Service.

31.5. Inquiry disclosed that depending on the severity of the reason of an employee for requesting leave monetization, the HRMD sometimes exercised discretion and recommended approval of requests even when the ORL requirements were not met. While we understand the HRMD's position in granting requests for leave monetization to help address the urgent needs of employees, they are still bound to comply with existing laws and regulations. It is essential for all requests for monetization to go through the proper channels and receive the requisite approvals mandated by relevant laws, rules, and regulations to ensure the validity of the transactions.

31.6. We recommended that Management instruct:

a. The CAAP-HO officers responsible for approving requests for leave credit monetization to ensure strict compliance with the ORL when authorizing the monetization of leave credits; and

b. The Accounting Division to ensure that requests for leave credit monetization have the necessary approval pursuant to CAAP Memorandum Circular No. 03-19 dated January 24, 2019.

31.7. The Management expressed that all requests for monetization were already undergoing the approval process pursuant to the guidelines set forth in the Omnibus Rules on Leaves and the established CAAP Memorandum Circular.

31.8. The Audit Team observed that CAAP had yet to implement the approval process for leave monetization requests as required by the prevailing CAAP MC. We had clarified this with the HRMD and they mentioned that the Administrative Department is still reviewing the MC. It is important to emphasize that until the subject MC is repealed or amended, it remains the governing guidelines as to who needs to approve leave monetization requests. Hence any disbursements lacking the appropriate approval may be considered irregular expenditures, as per COA Circular No. 2012-003 dated October 29, 2012.

32. Handling, custody, and disposal of documents, as well as the grant, use, and liquidation of the Petty Cash Fund were not in accordance with COA Circular Nos. 97-002 and 2012-001.

a) Disbursements through Petty Cash Fund were not supported with complete documentation contrary to COA Circular No. 2012-001

32.1. This is a reiteration of our prior year's observation embodied in the CY 2022 Annual Audit Report.

32.2. COA Circular No. 2012-001 dated June 14, 2012, prescribes the *Revised Guidelines and Documentary Requirements for Common Government Transactions*.

32.3. The Chief Accountant signed disbursement vouchers and liquidation reports for cash advances, replenishments, and liquidations of the Petty Cash Fund, certifying the completeness of supporting documents and the propriety of the amount claimed. However, audit revealed that some disbursements lacked the required documents.

32.4. The CAAP-HO AD acknowledged their shortcomings, attributing non-compliance with pertinent rules to the high volume of transactions and a limited workforce.

32.5. The incomplete documentation for cash advances and replenishment was contrary to the Circular mentioned above, casting doubt on the legality, existence, and validity of the transactions.

32.6. We reiterated our prior year's recommendations that Management direct the Chief Accountant to:

a. Submit to the Audit Team the lacking supporting documents; and

b. Ensure that complete supporting documents, as prescribed under COA Circular No. 2012-001 are attached to the vouchers.

32.7. The CAAP-HO AD submitted supporting documents to the Audit Team. However, they submitted certifications citing urgency instead of the required Requisition and Issue Slip (RIS) and Purchase Requests (PR). Records indicate that procurement was made monthly; hence, it was not urgent.

32.8. We reiterated our recommendation that Management attach to the vouchers complete supporting documents prescribed under COA Circular No. 2012-001.

b) Cash advances were not liquidated within the prescribed timeline

32.9. Paragraph 5.1.2 of COA Circular No. 97-002, *Rules and Regulations on the Granting, Utilization, and Liquidation of Cash Advances*, provides that the Accountable Officer shall liquidate his cash advance for petty operating expenses within 20 days after the end of the year. Paragraph 5.3 of the same Circular further states 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 Auditor. The cash advance shall be considered liquidated upon the recording thereof by the Accountant in the books of accounts although not yet audited by the COA auditor.

32.10. Moreover, Section 5.1.6 - *Liquidation of Cash Advance of Petty Cash Fund, Local and Foreign Travel* - of the 2021 Revised CAAP Administrative and Finance Service (AFS) Operations Manual provides that the average time to complete the accounting process of liquidation of petty cash is about seven hours.

32.11. Analysis of transactions revealed that the turnaround time of submission, processing, and recording of liquidations was one of the factors that contributed to the delay in the liquidation of cash advances.

32.12. The Petty Cash Custodians (PCCs) explained that they deferred liquidation as the CA requested based on the new authority order had not been released yet and they might need the funds. The CAAP-HO AD added liquidation was just one of the various processes that they do. Only one person verified all claims due to the transfer of two officers to another office. They had requested additional staff, and the Human Resource Management Division confirmed that hiring was in progress.

32.13. The delayed liquidation of cash advances posed a financial risk as unliquidated funds may be misused. The extended processing time denoted operational inefficiencies and hindered the timely execution of financial tasks. Lastly, the shortage of CAAP-HO AD staff to verify the claims and process liquidations indicated resource limitations affecting timely financial operations.

32.14. We recommended and Management agreed to:

a. Enjoin Accountable Officers to strictly comply with the timely liquidation of cash advances, as provided under COA Circular No. 97-002 and their respective Authority Orders;

b. Direct the CAAP-HO Accounting Division to:

i. Establish a robust monitoring mechanism to regularly track cash advances and their liquidations to promptly identify and address delays, and regularly review the effectivity/validity of Authority Orders related to cash advances; and

ii. Remind the Accountable Officers to liquidate their cash advances promptly once Authority Orders expire, when they are reassigned, or when the purpose of the cash advance is served.

32.15. Management commented that the AOs were reminded of their timely compliance with COA Circular No. 97-002 during the orientation seminar held on February 20, 2024.

c) Petty Cash Fund Record (PCFR) not reconciled with the cash on hand daily

32.16. Paragraph 6.3 of COA Circular No. 97-002, requires that the Accountable Officer reconcile the book balance with the cash on hand daily, foot and close the books at the end of each month and that the Accountable Officer and the Accountant should reconcile their books of accounts at least quarterly.

32.17. During the cash count, it was observed that the PCFR maintained by three PCCs—CAAP Security and Intelligence Service (CSIS), Office of the Deputy Director for Administration/Corporate Planning Office (CPO)/Management Information System Division (MISD)/ Enforcement and Legal Service (ELS), and Air Traffic Service (ATS)—were not reconciled daily with their cash on hand. The Audit Team noted the following deficiencies that could have been prevented if reconciliation had been done between the record and cash on hand:

- A shortage and an overage in cash on hand which were immediately restituted and forfeited, respectively;
- Discrepancies in the amounts recorded on the PCFR against the actual Petty Cash Voucher (PCVs) and Official Receipts (OR);
- Cancelled PCVs still recorded on the PCFR;
- Paid PCVs not recorded in the PCFR;
- Unpaid PCVs recorded in the PCFR; and
- PCVs were not issued in chronological order.

32.18. The PCCs admitted that due to voluminous transactions being handled, recording of transactions and reconciliation of records against cash on hand were often missed. They also explained that although they were oriented on the granting, utilization, and liquidation of cash advances, they lacked formal orientation on the handling, custody, and disposition of the PCFR, especially for Accountable Officers without accounting backgrounds.

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

32.20. We recommended that Management:

a. Direct the PCCs to adhere to the provisions of COA Circular No. 97-002, on the proper handling, custody, and disposition of the cashbook;

b. Direct the CAAP-HO Accountant to conduct formal orientation sessions for all PCCs on the handling, custody, and disposition of the PCFR and other forms and reports related to PCF, emphasizing its importance in financial management. The topics shall include, but not limited to the following:

i. Use of prescribed PCFR and other forms and reports relative to PCF;

ii. Recording the transactions in the PCFR daily;

iii. Reconcile the book balance with the cash on hand daily;

iv. Foot the total debit and credit at the end of each month;

v. Record only paid PCVs in the PCFR; and

vi. Issue and record PCVs in chronological order.

32.21. Management commented that adherence to COA Circular No. 97-002 was discussed and explained to the PCCs during their orientation seminar held on February 20, 2024, which covered the handling, custody, and disposition of the PCFR and the other required reports related to PCF.

d) The PCCs disbursed funds even without an Authority Order

32.22. Section 1.1 of COA Circular No. 2012-001, requires that all initial cash advances, except for travel, shall be supported with the authority of the accountable officer issued by the Head of the Agency or his duly authorized representative. Likewise, Section 4.1.4 of COA Circular No. 97-002, states that only duly appointed or designated disbursing officers may perform disbursing functions.

32.23. Analysis of payments made through PCF revealed that the PPCs disbursed funds without an authority order. The disbursements were made from the unliquidated PCF, beyond the validity of their Authority Order (AO). The PCCs explained that they used the unliquidated PCF under their previous AO No. 02-2022, valid only until February 28, 2023, since there was no cash advance made yet for the succeeding AO No. 048-2023. However, this did not justify using the funds without a valid AO. This renders the disbursements beyond the validity of their AOs irregular and illegal, as it violates the principle that only duly appointed or designated disbursing officers may perform disbursing functions.

32.24. We recommended and Management agreed to:

a. Ensure the timely issuance of Authority Orders designating CAAP personnel as Accountable Officers to avoid gaps in the validity of their designations as such; and

b. Direct the Accountable Officers to refrain from disbursing funds without Authority Order or designation to do so.

33. The CAAP Dumaguete Airport was not adequately equipped with basic facilities such as clean restrooms, sufficient seating, and functional air-conditioning units contrary to the CAAP Quality Management Manual, which might lead to a negative passenger experience that could affect the overall efficiency of airport operations.

33.1. One of the primary objectives of airports is to provide a positive and efficient experience for passengers by providing check-in facilities, baggage handling systems, and other facilities to ensure a smooth flow of passengers from arrival to departure in order to ensure their safety, comfort, and convenience.

33.2. The CAAP Quality Management System Manual states that airports are responsible for implementing procedures and standards to ensure the efficiency and safety of aerodrome operations. Among others, one of their functions is to maintain the upkeep of the Passenger Terminal Building (PTB) and other airport facilities to ensure the safety and security of the flying public, airport personnel, and other stakeholders.

33.3. However, on one occasion when the audit team boarded a flight at the Dumaguete Airport, the following observations were noted:

a) Lack of clean restrooms

33.4. We noted that there were no restrooms in the check-in area and the restrooms in the pre-departure and arrival areas were still undergoing maintenance and repair, thus, flushing was done manually by the utility personnel who informed the Team that the repairs had been going on for some time.

33.5. Clean restrooms are vital for maintaining proper hygiene in airports. Since airports handle a large number of passengers on a daily basis, they are susceptible to the spread of illnesses and diseases. Thus, it is the responsibility of airports to provide a safe and healthy environment for travelers to maintain their well-being and also prevent the transmission of germs and reduce the risk of infections.

33.6. Clean restrooms that are well-stocked with water and essential amenities like soap, paper towels, and toilet paper cater to passenger's basic health needs. These need to be adequately maintained to ensure that the facilities remain operational and reduce the chances of toilets being out of order.

33.7. Neglecting the maintenance and cleanliness of restrooms could have negative consequences for airport operations leading to increased costs, unsatisfied passengers, and impact on the airport's image and reputation.

b) Insufficient seating facilities

33.8. We also noted the lack of seating facilities in the check-in area where the passengers waited for their turn to be checked in. The same was true at the arrival area where passengers had to stand while waiting to claim their luggage. In fact, many senior citizens, women, and children were just standing because there were no available chairs.

33.9. Sufficient seating facilities are one of the crucial considerations for passenger comfort. Travelling can be exhausting and airports need to provide a comfortable environment for passengers. Adequate seating facilities allow the passengers to reset, relax, and reduce the physical strain that comes with long periods of standing or even walking.

33.10. Moreover, airports cater to a diverse range of passengers including the elderly, pregnant women, parents with young children, and people with disabilities. Ample chairs even in the check-in and arrival areas facilitate accessibility and allow individuals to wait comfortably.

33.11. Insufficient seating facilities, on the other hand, could lead to passenger dissatisfaction because individuals might have to wander around in search for a chair or may even end up sitting on the floor. This inconvenience not only affects passengers' comfort but also reflects poor customer service by the airport's management. Dissatisfied passengers might have negative feedback which would affect the airport's reputation.

c) Inadequate air conditioning units

33.12. It had also been observed that the temperature inside the terminal was warm and not sufficiently regulated due to malfunctioning air conditioning units.

33.13. An airport is expected to be able to accommodate a lot of people since it also serves as a waiting area, especially for departing passengers, thus, a well-regulated temperature in the area is necessary to ensure a comfortable environment for passengers to attain a more pleasant travel experience.

33.14. In addition, maintaining a controlled temperature and proper ventilation also helps control unpleasant odors because a stuffy environment could exacerbate odors and compromise overall hygiene standards which could negatively impact the experience of passengers and airport personnel.

33.15. On the other hand, inadequate ventilation and high temperature could pose health risks because the stuffy air could result in respiratory problems, discomfort, and dehydration. By maintaining a cool and well-ventilated environment, airports could help prevent heat-related illnesses and maintain the well-being of the individuals within the facility.

33.16. Finally, malfunctions in air-conditioning equipment could lead to disruption in operations which could affect airport services and also cause operational delays.

33.17. The airport manager in CAAP Dumaguete airport agreed with the foregoing observations and he informed the Team that all of these concerns were already raised to higher CAAP authorities. He added that he had already proposed a budget for the maintenance and upgrade of the basic airport facilities, especially the restrooms and air-conditioning units. However, to date, there had been no action taken on his proposals.

33.18. We recommended that Management direct the Area Center VII Management to prioritize the regular maintenance and repair schedules for restrooms and air conditioning units and to provide sufficient seating facilities in the Dumaguete Airport PTB to ensure a positive travel experience for passengers and contribute to successful airport operations.

33.19. The following are Management's responses to each observation:

a) Lack of clean restrooms

33.20. Management’s proposal for the maintenance and upgrade of restroom facilities, including a regular repair schedule, had been submitted to higher CAAP authorities. They would also be requesting the budget allocation for the proposed project “Repair and Rehabilitation of PTB comfort rooms/toilets” including the construction of communal toilets in the vehicular parking area. And they will continue to follow up on the status of this proposal to expedite necessary actions.

b) *Insufficient seating facilities*

33.21. Plans to enhance seating facilities in the check-in and arrival areas were in progress. Management was committed to providing sufficient seating to accommodate all passengers, including the elderly, pregnant women, and individuals with special needs. However, due to the limited space at the check-in area, they were unable to provide an area for the additional gang chairs. Nevertheless, a proposal to have the second level was previously proposed and this will give more than enough space for all the necessities of the PTB.

c) *Inadequate air conditioning units*

33.22. The proposed budget for the maintenance and upgrade of the air-conditioning units was already in the pipeline. There is an ongoing installation of an additional three units. They would expedite the necessary steps to ensure that the air- conditioning units are functioning optimally, providing a comfortable environment for passengers.

34. Prolonged non-disposal of unserviceable properties with a carrying value of at least P5.868 million led to further deterioration and decreased value while incurring additional storage, maintenance, and security costs.

34.1. This is a reiteration of audit observation embodied in CY 2022 AAR.

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

34.3. Verification of documents showed that several unserviceable properties at CAAP- HO costing P103.320 million with a carrying value of P5.868 million, and AC XI's 2,256 unserviceable properties and waste materials with undetermined amount due to incomplete property records remained undisposed of as of December 31, 2023.

34.4. Moreover, unserviceable properties kept at the storage rooms and other satellite offices in ACs II, VI, and XII, which were the subject of audit observations in previous years, also were not yet disposed of.

34.5. Although these unserviceable properties had already been derecognized from the books of accounts, prolonged non-disposal thereof exposed them to further deterioration over time, decreasing any potential value they might have. In addition, maintaining and storing them would mean incurring additional costs related to storage, maintenance, and security.

34.6. **We reiterated our prior years' recommendations, with modification, and Management agreed to instruct the CAAP-HO, ACs II, VI, and XII Disposal Committees to undertake the immediate disposal procedures of unserviceable properties in accordance with PD No. 1445, COA Circular No. 89-296, and COA-DBM Joint Circular No. 2024-01 to avoid possible loss due to further deterioration and devaluation of the said properties and to decongest the storage area.**

34.7. **We further recommended that Management direct AC XI to:**

a. **Expedite the preparation of an updated and/or complete Inventory and Inspection Report of Unserviceable Properties (IIRUP) to come up with a complete list of unserviceable properties and waste materials based on the latest physical inventory;**

b. **Determine the appraised value of all unserviceable properties and waste materials using the COA Manual on Appraisal of Government Properties;**

c. **Instruct the Supply and Property Officers and the Area Accountant to issue a certification that the documents and records can no longer be found, traced, and reconciled and that the unserviceable properties are found on site with no owner (abandoned property). Provided that efforts have been exerted by the persons responsible and done in good faith; and**

d. **Furnish the Audit Team program for disposal with time schedules and other relevant documents at least 20 days before the advertisement of the call to public auction pursuant to COA Circular No. 89-296.**

34.8. CAAP-HO Property Disposal Committee successfully awarded one lot of unserviceable helio aircraft on May 16, 2024. Likewise, reports, i.e. IIRUP, were constantly updated for FY 2024. The Committee acknowledged the recommendation and committed to continuously ensure that the unserviceable properties are timely disposed of properly in accordance with the prevailing rules and regulations on disposal.

34.9. During the exit conference, the Area Manager of AC XI mentioned that the disposal of unserviceable properties was directly affected by the ongoing efforts to transition to the Davao International Airport Authority (DIAA). The disposal required the knowledge and concurrence of the DIAA Board, as these properties would subsequently become assets of the DIAA.

34.10. Further, the Disposal and Appraisal Committee of the CAAP AC XI had yet to begin their disposal activity. The Area Accountant would issue a certification and comply with the procedural guidelines prescribed under COA Circular No. 2020-006, in line with the calendar of activities set by the CAAP Head Office regarding one-time cleansing of PPE.

34.11. Furthermore, the Management also gave assurance that a COA representative will be invited to witness the disposal of unserviceable properties and waste materials in accordance with Section 79 of Presidential Decree (P.D.) No. 1445.

35. Disallowances and charges amounting to P6.738 million, which have become final and executory at CAAP-HO remained unsettled due to Management's laxity in enforcing their settlement or recovery contrary to Section 7.1.3 of COA Circular No. 2009-006 dated September 15, 2009.

35.1. This is a reiteration of prior years' observations embodied in the CY 2019, CYs 2020 and 2022 AARs.

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

35.3. Audit disclosed that as of December 31, 2023, receivables arising from disallowances and charges at CAAP-HO, which have been rendered final and executory, amounting to P6.738 million, remained unsettled. Of this amount, P5.131 million pertains to disallowances where Appeal Memorandum/petitions for review were filed with this Commission after an NFD was issued.

35.4. The Audit Team observed that CAAP-HO managed to collect only P40,000 in CY 2023. The minimal collection can be attributed to CAAP-HO's laxity in enforcing the settlement of audit disallowances and charges. Verification disclosed that CAAP did not enforce the settlement of audit disallowances/charges with an aggregate amount of P1.546 million, even against personnel who are still connected with CAAP despite the issuance of COEs. Likewise, we noted that CAAP did not issue any demand letters to liable individuals to pursue the collection of the receivables.

35.5. The laxity of Management in enforcing the recovery of the disallowances and charges is contrary to the provisions of COA Circular No. 2009-006. Moreover, the non-settlement of these receivables deprives CAAP of additional funds it could utilize to further accomplish its mandate.

35.6. We reiterated our prior years' recommendations and Management agreed to adhere to the Rules and Regulations on the settlement of accounts prescribed under COA Circular No. 2009-006 by directing the:

a. Chief Accountant to withhold the salaries or any money due to ALL persons liable who are still connected with CAAP, for the settlement of their liabilities; and

b. Concerned CAAP officials to initiate and exhaust all legal means to collect/recover the disallowances and charges by sending demand letters and, if necessary, pursuing administrative/criminal actions in case of unjustified refusal to settle liabilities, or exploring other appropriate legal actions.

36. GSIS, PhilHealth, and Pag-IBIG premiums of CAAP-HO and Area Centers (AC) II and V amounting to P15.691 million were not remitted within the prescribed period contrary to existing laws, rules, and regulations, thereby exposing the responsible officers and employees to potential penalties.

36.1. Section 4.1.2 and 14.1 of the Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 8291, otherwise known as the Government Service Insurance System (GSIS) Act of 1997, state that government agencies have the legal obligation to remit to the GSIS the monthly premium contributions of its members, both for personal and government shares within the first 10 days of the calendar month following the month to which the contributions apply.

36.2. Meanwhile, GSIS Memorandum Circular No. 3, s. 2012 reiterates the procedures when remitting GSIS premiums and updating membership records. It requires government agencies to regularly update their member's records by submitting the Agency Remittance Advice (ARA) and the Electronic Remittance File (ERF) every 1st week of every month as the prompt submission of both files guarantees the accuracy of billing of premiums due and posting of remittances in the GSIS database.

36.3. Section 18 of the Revised IRR of RA No. 7875, also known as the National Health Insurance Act of 2013, states that the remittance of premium contributions by the employed members shall be remitted by the employer to Philippine Health Insurance Corporation (PhilHealth) on or before the 10th day of the month following the applicable month. Further, Section 15 of the same IRR provides that government and private employers are required to report to PhilHealth its newly hired and/or separated employees within 30 calendar days from assumption to office and/or separation.

36.4. Additionally, Rule VII, Section 3 of the IRR of RA No. 9679, otherwise known as the Home Development Mutual Fund Law of 2009, provides that it shall be the duty of CAAP to remit to the Home Development Mutual Fund (Pag-IBIG) the contributions of its members every 10th to the 14th day of the month following the applicable month.

36.5. On the other hand, COA Circular No. 2020-002 dated January 28, 2020, on the adoption of the revised chart of accounts of government corporations, defined the *Due to GSIS*, *Due to PhilHealth*, and *Due to Pag-IBIG* accounts as accounts credited to recognize the withholding of employees' premium payments and other payables for remittance to the GSIS/PhilHealth/Pag-IBIG. The accounts are debited upon remittance of the contributions/premiums and/or adjustments.

36.6. Based on the foregoing guidelines, GSIS, PhilHealth, and Pag-IBIG contributions deducted from the salaries of CAAP employees, along with the government share of these contributions, shall be remitted to their respective corporation within the month following the month the contribution applied. Hence, the balance in the *Due to GSIS*, *Due to PhilHealth*, and *Due to Pag-IBIG* accounts as of December 31, 2023, pertain only to withheld contributions/premiums from employees and the corresponding government share of CAAP for the month of December 2023. Any excess in these accounts might then pertain to unremitted contributions of CAAP or erroneous recording of premiums which will require reconciliations and adjustments.

36.7. Comparison between the balances of the *Due to GSIS*, *Due to PhilHealth*, and *Due to Pag-IBIG* accounts as of December 31, 2023 vis-à-vis the amount withheld from employees and CAAP's share on these contributions disclosed a discrepancy with an aggregate amount of P15.691 million. Details are shown in Table 22.

Table 22. Premiums/Contributions for December 2023 vs General Ledger Balance of the Due to GSIS/PhilHealth/Pag-IBIG accounts

Agency	**Balance per account as of December 31, 2023**	**Premiums/ Contributions for December, 2023**	**Unremitted Premiums/ Contributions**
GSIS	P 29,530,104	P 19,945,338	P 9,584,766
PhilHealth	7,310,096	2,700,412	4,609,684
Pag-IBIG	2,477,825	980,966	1,496,859
	P 39,318,025	**P 23,626,716**	**P 15,691,309**

36.8. The balance of P15.691 million represented CAAP-HO and ACs II and V's unremitted premiums or contributions to GSIS, PhilHealth, and Pag-IBIG, contrary to the aforementioned guidelines.

36.9. The Audit Team observed that in CAAP-HO, the increase in the basic salary rates of CAAP personnel due to the transition to the Compensation and Position Classification System (CPCS) in January 2023 was not timely updated in the system of GSIS. Although the premiums corresponding to these salaries were withheld from employees, along with CAAP's share, the remittance of these premiums was not made, which contributed to the issue.

36.10. We also noted that Philhealth premiums relative to 38 newly hired CAAP-HO employees between July and August 2023 were not remitted as of December 2023 because their names had not been reported yet to Philhealth. Similarly, in AC V, the audit observed that there was no posting of Philhealth contribution remittances for Daet Airport employees for September to December 2023. These circumstances had contributed to the balance of the unremitted premiums/contributions as of year-end.

36.11. Further, the HRMD of CAAP-HO indicated that they were unable to promptly update the GSIS and PhilHealth records due to the voluminous tasks assigned to the personnel in charge. However, we reminded the HRMD that updating of records related to employees' premiums with GSIS, PhilHealth, and Pag-IBIG has to be given priority, considering the monetary and legal implications of non-compliance.

36.12. We recommended and Management agreed to instruct:

a. The Chief, HRMD to immediately update all its records with the GSIS, PhilHealth, and Pag-IBIG;

b. The Chief Accountant, ACs II, and V, in coordination with the HRMD, to reconcile its records and expedite the remittance of the outstanding balances to GSIS, PhilHealth, and Pag-IBIG;

c. The Chief, Finance Department, to require the HRMD and the Chief Accountant to issue a monthly certification that the amount to be remitted to the GSIS, PhilHealth, and Pag-IBIG corresponds to the amount withheld in the immediate preceding month to support each payment. If discrepancies arise, require both offices to provide a valid and acceptable justification; and

d. Comply with the laws and regulations on prompt payments of premiums and loan payments to the different government agencies to avoid penalties.

36.13. The Management of CAAP-HO said that they had allotted an additional schedule for updating PhilHealth records. They likewise coordinated with the GSIS and they could now generate the GSIS Loan Report via the GSIS online platform which would be used during the preparation of payroll register.

36.14. They also commented that the concerned divisions agreed to improve on their coordination and collaboration to ensure timely updating of employee records and remittance of mandatory deductions.

36.15. The Management also mentioned that the Chief Accountant committed to initiate the reconciliation of records with the HRMD to expedite the remittance of the outstanding balances due to the different government agencies.

36.16. They added that starting May 2024, the Accounting Division will issue a Discrepancy Report to the HRMD if the amount withheld is not equal to the amount being remitted to expedite reconciliation.

36.17. AC V Management explained that the deficiency in premium contributions was mainly due to the unremitted premiums of employees with salary adjustments and step increments as they transitioned to the CPCS. They added that the Area HRM Section together with the Area Accounting were prioritizing the reconciliation of records to facilitate the immediate remittance of outstanding balances to the concerned agencies. They assured the Audit Team that the unremitted balance would be remitted immediately.

37. Penalty amounting to P72,169 was incurred due to the late remittance of PhilHealth premiums covering the period January to April 2022.

37.1. PhilHealth Advisory 2022-0010, in consonance with RA No. 11223 or the Universal Health Care Act, increased the premium rate of PhilHealth from three per cent to four per cent with an income floor of P10,000.00 and an income ceiling of P80,000.00 beginning January 2022. The Advisory likewise states that the change in rate will only take effect in essential PhilHealth systems starting June 2022. Hence, PhilHealth Members and employers who already paid for their premium at three per cent may settle the one per cent differential until December 31, 2022.

37.2. Meanwhile, Section V.I. of PhilHealth Circular No. 2020-005 dated February 19, 2020, imposed a three per cent interest, compounded monthly, for the untimely remittance of PhilHealth premiums.

37.3. Section 103 of Presidential Decree (PD) No. 1445, otherwise known as the *Government Auditing Code of the Philippines*, provides that expenditures of government funds or uses of property in violation of law or regulations shall be a personal liability of the official or employee found to be directly responsible therefor.

37.4. Relative to the Advisory, CAAP-HO was liable for the one per cent differential for the period January to May 2022 amounting to P3.012 million. The Audit Team noted that CAAP-HO only remitted the May 2022 differential within the prescribed deadline. The differential for the period January to April 2022 was only paid on January 7, 2023, resulting in PhilHealth imposing a penalty of P72,169 against CAAP.

37.5. Inquiry disclosed that, while the corresponding DV for the payment was already approved, the designated approver of CAAP for the remittance of premiums in the PhilHealth Electronic Premium Remittance System only approved the payment for May 2022 on December 29, 2022, the last working day of the year. The incurrence of the penalty could have been prevented if the payment for the differential had been processed earlier.

37.6. While there may be factors beyond the approver's control, proper communication and due diligence among responsible personnel could have prevented the incurrence of the penalty. The payment for the differential could have been processed earlier, ideally before the Christmas season when many personnel were on leave. Additionally, an alternate approver could have also been assigned to ensure that payments are timely made.

37.7. It was also noted that the payment for the penalty was made using CAAP's funds, which is contrary to Section 103 of PD No. 1445.

37.8. We recommended that Management direct:

a. Those involved with the processing and payment of the penalty to explain why the payment should not be disallowed in audit; and

b. **The Chief of the Finance Department to provide a detailed plan of action to prevent the recurrence of this issue.**

37.9. The management commented that the processing of remittances and payment of monthly contributions are now being done earlier than the set deadlines with an average allowance of 3-5 days to ensure that remittances are done without delay.

37.10. While the Audit Team appreciated the Management's commitment to initiate the processing of remittances earlier than scheduled, this action alone would not directly address the audit observation. Hence, there is a need for Management to implement controls to ensure all remittances are processed within the prescribed deadlines.

38. Non-compliance with COA Circular No. 2023-008 dated August 17, 2023, on the timely submission of an accurate Schedule of Dormant Accounts (SDA) and the conduct of regular and periodic verification, analysis, and validation of the existence of all dormant accounts.

38.1. COA Circular No. 2023-008 dated August 17, 2023, requires all government entities to determine the existence of dormant accounts in their books and submit the Schedule of Dormant Accounts to the Office of the Auditor on the 15th day of the ensuing month of each quarter. As stipulated in the Circular, the Accountant is primarily responsible for ensuring that all dormant accounts in the books of accounts are identified and that regular and periodic verification, analysis, and validation of the existence of these accounts are conducted. It likewise provides the procedures for the one-time cleansing of all dormant accounts within one year from the effectivity of the Circular.

38.2. Despite several follow-ups, the Accounting Division (AD) at CAAP-HO, Area Centers (ACs) I, III, and VI had yet to submit the SDA as of December 31, 2023.

38.3. The Accountant of CAAP-HO and AC I commented that they were in the process of securing pertinent documents to support the request for write-off. The AC III Accountant explained that the lack of manpower to continue collating the necessary data hampered their efforts in complying with the Circular. Meanwhile, the AC VI Accountant commented that they had yet to receive instructions from CAAP-HO relative to the matter.

38.4. COA Circular No. 2023-008 accords government agencies a one-time opportunity to derecognize dormant accounts. Thus, we emphasized the importance for CAAP to seize this opportunity to clean its books of dormant balances, as permitted by the aforementioned Circular.

38.5. **We recommended that Management instruct the Department Manager, Finance Department at CAAP-HO, and the Accountants in ACs I, III, and VI, to:**

a. **Ensure that the SDA is timely submitted to the Office of the Auditor in accordance with the COA Circular; and**

b. **Prioritize the review and analysis of dormant balances, collate the necessary documents, and take advantage of the one-time cleansing of dormant accounts by submitting requests for write-off to the Audit Team, if warranted.**

38.6. ACs I, III, and VI Management committed to comply with the audit recommendation.

39. The Authority was unable to implement the institutionalization of the GAD Database/Sex-Disaggregated Data, thereby casting doubt on the effectiveness of the Authority's GAD analysis and the significance of identified gender issues in the GAD Plan and Budget (GPB).

39.1. PCW-NEDA-DBM Joint Circular No. 2012-01 prescribes the guidelines for the Preparation of Annual Gender and Development (GAD) Plans Budgets and Accomplishment Reports to Implement the Magna Carta of Women.

39.2. Section 4.4 of the Joint Circular institutionalized the GAD Database/Sex-disaggregated Data (SDD). It requires government agencies to develop and integrate into 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.

39.3. The GAD Database/SDD is one of the essential elements in GAD planning and budgeting as it enables agencies to plan and implement their agency-wide programs effectively. It serves as an important tool to facilitate gender analysis within the organization and identify GAD issues affecting clients with the attainment of its mandate.

39.4. The non-implementation of the GAD Database/SDD raised doubts on the existence and/or effectiveness of the Authority's GAD analysis and the significance of identified gender issues in the GPB affecting the employees and clients. It cast doubt on the significance of the identified gender issues in the GPB, and whether they truly reflected the existing gender issues faced by its clients and employees.

39.5. In an interview, the Chief of the Human Resource Management Division (HRMD) admitted that they did not accomplish the database as they relied on the upcoming Human Resource Information System to incorporate the necessary information. However, the procurement of the HRIS did not materialize in CY 2023.

39.6. We reminded the HRMD that the creation of the GAD database/SDD was not reliant on any automated information system, and the lack of a system should not be used as a valid excuse for its non-preparation.

39.7. We recommended and Management agreed to instruct the Human Resource Management Division (HRMD), in CAAP-HO and AC V, in coordination with the GAD-Technical Working Group, to ensure the institutionalization of the GAD Database/Sex-Disaggregated Data and capacitate the GAD GFPS on its use and importance to aid the focal point in determining gender issues and corresponding actions to address them.

39.8. Management commented that they had already instructed HRMD and MISD to facilitate the inclusion of the GAD Database/SDD in the human resource database system. Meanwhile, a CAAP-wide GAD Database/SDD survey was launched in March 2024.

40. Only 40.31 per cent of the amount appropriated for GAD in CY 2023 was utilized, depriving beneficiaries of the potential benefits from the Programs, Activities, and/or Projects

40.1. Audit on the utilization of GAD funds disclosed that out of the P1.708 billion GAD Budget for CY 2023, only 40.31 per cent or P688.356 million was expended during the year, as shown in Table 23.

Table 23. Summary of GAD Accomplishments for CY 2023.

	No. of PAPs	**Status of PAPs**			**GAD Budget**	**Actual Expenditures**	**% of Accomplishment**
		NI	**PI**	**FI**			
Client-Focused Projects	12	3	6	3	34,641,964	15,013,051	43.34%
Organization-Focused Projects	13	1	2	10	54,661,312	15,021,345	27.48%
Attributed Programs	3	2	1	0	1,618,224,304	658,321,759	40.68%
	28	**6**	**9**	**13**	**1,707,527,580**	**688,356,155**	**40.31%**

Note: NI – not implemented, PI – partially implemented, FI – Fully implemented.

40.2. As shown in the table, CAAP planned a total of 28 GAD-related Programs, Activities, and/or Projects (PAPs) for CY 2023. Out of the 28 PAPs, 13 were implemented, nine were partially implemented, and six were not implemented.

40.3. Management raised that one of the challenges encountered by the GAD Focal Point System (GFPS) in ensuring the implementation of its PAPs was the timely procurement of projects.

40.4. In AC VI, one of the projects targeted for completion in CY 2023 was the maintenance, cleaning, and sanitation of breastfeeding rooms at Iloilo, Bacolod-Silay, Roxas, and Antique Airports. However, the project, along with the other PAPs of CAAP, was not implemented.

40.5. While the Audit Team recognized the efforts of the CAAP GFPS to meet the five per cent budgetary requirement on GAD, the low utilization of the GAD

Budget indicated that Management was unable to fully address the gender issues included in their GPB. This deprived the intended beneficiaries of potential benefits from GAD PAPs and reflected inadequate planning in coming up with projects that were not only effective in addressing gender issues but also attainable.

40.6. We recommended and Management agreed:

40.7. For CAAP-HO to:

a. Look into its available resources and consider CAAP's schedule of activities in formulating the agency's GPB to ensure the attainability of GAD PAPs.

40.8. For AC VI to:

b. Direct the Area GFPS to design and implement an attainable GPB that addresses the specific gender issues and concerns of CAAP AC VI, based on the CAAP mandate as a whole; and

c. Coordinate with Head Office GFPS the challenges encountered and formulate measures to meet GAD targets and accomplish the performance indicators to fully address the gender issues in CAAP AC VI.

41. The Authority did not establish a Responsibility Center (RC) or maintain Subsidiary Ledgers (SLs) for GAD, contrary to Section 4.9 of COA Circular No. 2021-008 dated September 6, 2021

41.1. COA Circular No. 2021-008 dated September 6, 2021, prescribes the assignment of a responsibility center for the GAD Focal Point System to account, monitor, and report GAD expenses and other GAD-related financial transactions.

41.2. Section 4 of the Circular requires government entities to establish their own responsibility accounting by creating or assigning Responsibility Centers (RCs) and RC codes. An RC is a part, segment, unit, or function of a government entity, headed by a manager, who is accountable for a specified set of activities. While an RC Code is the code assigned by the government entity concerned to its individual RCs. The assignment of an RC and RC code for GAD aims to facilitate a way to generate all reports pertaining to GAD-related expenses and other GAD-related financial transactions and to monitor and properly account for the GAD fund. The Circular requires that a separate RC and RC code be assigned for GAD.

41.3. For entities using a Manual Accounting System, the Circular requires the use and maintenance of a subsidiary ledger for GAD for each account to record all GAD-related transactions.

41.4. Audit disclosed that CAAP HO as well as Area Centers VIII and XI did not prepare or assign RC or SL for GAD-related expenses.

41.5. For CAAP-HO, the Budget Division simply marked all Budget Utilization Requests with “GAD” to identify these transactions as GAD-related. This raised concerns about whether all GAD-related disbursements of the Authority were properly accounted for and monitored, as reflected in the GAD reports.

41.6. We recommended and Management agreed to direct the Department Manager III of the Finance Department to instruct the Accounting Division to establish RC/SLs for each account to record all GAD-related expenses, whichever is practical, in compliance with COA Circular No. 2021-008 dated September 6, 2021.

41.7. Management commented that RC and SLs for GAD were still being conceptualized by the Budget Division.

42. Compliance with Tax Laws

42.1. Various observations about compliance with the National Internal Revenue Code of 1997 were noted in CY 2023, to wit:

a. CAAP did not apply its creditable input tax to reduce its VAT obligations to the BIR in CY 2023, as discussed in Observation No. 16;

b. 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). Further, CAAP did not secure the necessary BIR Forms to support the creditable withholding taxes amounting to P79.493 million, as discussed in Observation No. 17; and

c. Withholding taxes amounting to P48.467 million at CAAP-HO were not timely remitted to the Bureau of Internal Revenue (BIR) while withholding taxes amounting to P794,664 in AC VI remained unremitted as of year-end. This issue was further discussed in Observation No. 18.

42.2. The details of the amounts withheld and remitted to the BIR during the year are presented in Table 24.

Table 24. Taxes Withheld and Remitted

			Taxes During CY 2023		
Offices	**Balances as of January 1, 2023 (As Restated)**	**Adjustments During the Year**	**Tax Withheld**	**Tax Remitted**	**Balances as of December 31, 2023**
Head Office	P 93,870,609	P (1,510,493)	P 298,671,487	P 322,914,817	P 68,116,786
AC I	3,355,799	(11,222)	9,828,341	10,306,116	2,866,802
AC II	1,666,526	0	5,333,622	5,948,709	1,051,439
AC III	5,552,201	0	14,321,863	18,567,028	1,307,036
AC IV	3,575,919	(14,430)	11,750,992	12,925,199	2,387,282
AC V	3,273,048	(464,958)	12,735,496	14,452,544	1,091,042
AC VI	3,644,707	(1,274,573)	30,937,157	30,881,109	2,426,182
AC VII	2,038,592	(26,987)	25,875,252	25,225,856	2,661,001
AC VIII	1,791,435	50,494	9,026,739	9,609,933	1,258,735
AC IX	2,878,913	(677,231)	12,291,045	13,839,277	653,450
AC X	3,549,428	0	11,477,115	13,195,540	1,831,003

Offices	Balances as of January 1, 2023 (As Restated)	Adjustments During the Year	Taxes During CY 2023 Tax Withheld	Tax Remitted	Balances as of December 31, 2023
AC XI	3,046,517	(205,991)	21,732,361	21,860,339	2,712,548
AC XII	1,499,261	0	9,019,613	9,229,603	1,289,271
Total Area Centers	35,872,346	(2,624,898)	174,329,596	186,041,253	21,535,791
Total	**P 129,742,955**	**P (4,135,391)**	**P 473,001,083**	**P 508,956,070**	**P 89,652,577**

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

43.1. Republic Act (RA) No. 8291, otherwise known as the Government Service Insurance System (GSIS) Act of 1997, RA No. 9679 or the Home Development Mutual Fund Law of 2009, and the Implementing Rules and Regulations of Republic Act 7875 as amended, and otherwise known as the National Health Insurance Act of 2013, provide guidelines on the deductions from the salaries of CAAP employees of premium and loan amortizations and its subsequent remittance, along with the government share of these contributions, to their respective corporation within the prescribed period.

43.2. The GSIS personal share, loans of employees, Social Insurance Fund (SIF), and Employees Compensation Insurance Fund (ECIF) premiums as government shares were substantially deducted and remitted in accordance with RA No. 8291. Likewise, Pag-IBIG and PhilHealth premiums and loan amortizations collected were remitted in compliance with RA No. 9679 and the Implementing Rules and Regulations of Republic Act 7875, as amended, respectively.

Table 25. GSIS, Pag-IBIG, and PhilHealth Premiums/Loan Amortizations and Remittances

Particulars	Balances as of January 1, 2023 (As Restated)	Adjustment(s)	Premiums and Loan Amortization collected for CY2023	Remittances	Balances as of December 31, 2023
GSIS	P 61,515,685	P (2,572,429)	P 446,412,950	P 460,215,402	P 45,140,804
Pag-IBIG	4,644,443	193,611	43,584,028	43,077,169	5,344,913
PhilHealth	13,904,815	(3,018,740)	53,038,001	53,647,436	10,276,640
TOTAL	**P 80,064,943**	**P (5,397,558)**	**P 543,034,979**	**P 556,940,007**	**P 60,762,357**

43.3. An exception, however, was noted for CAAP HO, ACs II and VI. Comparison between the balances of their respective Due to GSIS, Due to Pag-IBIG, and Due to PhilHealth accounts vis-à-vis the amount withheld from employees and CAAP's share on these contributions for December 2023 disclosed a discrepancy with an aggregate amount of P15.691 million. This issue was further discussed in Observation No. 36.

43.4. Lastly, a penalty amounting to P72,169 was incurred due to the late remittance of PhilHealth premiums covering the period January to April 2022 in CAAP HO. This was discussed in Observation No. 37.

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

44.1. The total audit suspensions, disallowances, and charges found in the audit of transactions as of December 31, 2023, are summarized in Table Nos. 26 and 27:

HEAD OFFICE

Table 26. Summary of Audit Suspensions, Disallowances and Charges in the Head Office

Particulars	Beginning Balance as of January 1, 2023	This Period January 1 to December 31, 2023		Ending Balance as of December 31, 2023
		NS/ND/NC	NSSDC	
Notice of Suspension	P 29,929,062	P 0	P 0	P 29,929,062
Notice of Disallowance	886,534,654	0	184,884	886,349,770
Notice of Charge	30,913	0	0	30,913
TOTAL	**P 916,494,629**	**P 0**	**P 184,884**	**P 916,309,745**
% of settlement			**0.02%**	

AREA CENTERS

Table 27. Summary of Audit Suspensions, Disallowances, and Charges in Area Centers

Particulars	Beginning Balance as of January 1, 2023	This Period January 1 to December 31, 2023		Ending Balance as of December 31, 2023
		NS/ND/NC	NSSDC	
Notice of Suspension				
AC V	P 1,144,134	P 0	P 0	P 1,144,134
AC VI	133,471	0	85,000	48,471
AC VIII	48,207	0	48,207	0
AC XII	7,554,813	0	15,376	7,539,437
TOTAL	**P 8,880,625**	**P 0**	**P 148,583**	**P 8,732,042**
% of settlement			**1.67%**	
Notice of Disallowance				
AC I	P 16,342,938	P 0	P 0	P 16,342,938
AC II	7,635,134	0	181,323	7,453,811
AC III	15,468,940	0	0	15,468,940
AC IV	11,676,055	0	0	11,676,055
AC V	22,315,430	0	0	22,315,430
AC VI	67,102,416	0	14,090	67,088,326
AC VII	41,530,411	0	0	41,530,411
AC VIII	9,113,134	0	12,191	9,100,943
AC IX	26,827,107	0	0	26,827,107
AC X	108,482,561	0	0	108,482,561
AC XI	39,011,789	0	1,000	39,010,789
AC XII	7,267,569	71,127	109,039	7,229,657
TOTAL	**P 372,773,484**	**P 71,127**	**P 317,643**	**P 372,526,968**
% of settlement			**0.09%**	