

## OBSERVATIONS AND RECOMMENDATIONS

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### A. FINANCIAL AUDIT

1. **The faithful representation of the Property and Equipment (PE) account with a carrying value of P59.972 billion, could not be established due to the presence of unreconciled variances, non-submission of records, unrecorded properties, misstatements, and inadequate accounting records which are not in accordance with the provisions of Paragraph 15, Philippine Accounting Standards (PAS) 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) ***Unreconciled variance of P7.381 billion between the balances per books of accounts and the Report on the Physical Count of Property, Plant, and Equipment (RPCPPE) due to the incomplete implementation of the one-time cleansing of PE accounts and the non-submission of RPCPPE covering assets with a total cost of P28.937 billion***
  - 1.3. This is a reiteration of our observations from CYs 2016 to 2023 Annual Audit Reports (AARs), with updated information.
  - 1.4. COA Circular No. 2020-006 provides guidelines and procedures in the conduct of the physical count of PPE for the One-Time Cleansing of PPE account balances of government agencies.
  - 1.5. 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. Hence, the entity shall have a periodic physical count of PPE, which shall be done at least once a year, and the result will be presented on a prescribed inventory report. This shall be submitted to the Auditor concerned not later than January 31 of the following year.
  - 1.6. 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.
  - 1.7. Comparison between the balances per books of accounts and RPCPPE showed a variance of P6.274 billion. Details are presented in Table 1.

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

Location	Accounts	Per books	RPCPPE	Absolute Variance	
HO	Land	P 1,865,266,420	P 1,291,562,950	P 573,703,470	
	Other Land Improvements	158,066,783	35,273,039	122,793,744	
	Airport Systems	4,108,861,495	3,110,506,445	998,355,050	
	Buildings	1,538,059,933	1,192,534,047	345,525,886	
	Other Structures	84,646,616	57,018,796	27,627,820	
	Office Equipment	72,062,337	36,147,226	35,915,111	
	Information and Communication Technical Equipment	373,788,970	137,046,668	236,742,302	
	Airport Equipment	1,031,962,761	370,624,919	661,337,842	
	Communication Equipment	784,529,199	294,858,751	489,670,448	
	Disaster Response and Rescue Equipment	221,766,147	642,588	221,123,559	
	Medical Equipment	15,516,472	14,608,615	907,857	
	Technical and Scientific Equipment	27,419,408	33,867,777	6,448,369	
	Other Equipment	53,617,331	41,684,635	11,932,696	
	Motor Vehicles	91,799,289	60,118,594	31,680,695	
	Aircrafts and Aircraft Ground Equipment	94,205,987	108,157,983	13,951,996	
	Furniture and Fixtures	566,291	687,735	121,444	
	Other Property, Plant & Equipment	2,406,329	13,194,895	10,788,566	
	<b>Sub-Total for HO Variance</b>				<b>P 3,788,626,855</b>
	AC II	Office Equipment	3,612,566	3,015,726	596,840
Information and Communication Technical Equipment		4,116,309	2,689,533	1,426,776	
Airport Equipment		103,123,937	102,442,937	681,000	
Communication Equipment		122,715,622	121,536,914	1,178,708	
Communication Equipment		0	215,730	215,730	
<b>Sub-Total for AC II Variance</b>				<b>P 4,099,054</b>	
AC IV	Land Improvements	292,328,398	290,644,711	1,683,687	
	Buildings	1,245,002,966	1,243,345,956	1,657,010	
	Other Structures	75,955,714	73,650,933	2,304,781	
	Office Equipment	1,828,733	5,407,662	3,578,929	
	Furniture and Fixtures	338,200	275,850	62,350	
	Information and Communication Technical Equipment	3,833,746	798,368	3,035,378	
	Airport Equipment	206,318,620	193,845,859	12,472,761	
	Communication Equipment	387,438,978	386,926,293	512,685	
	Other Machineries & Equipment	20,607,109	20,226,654	380,455	
	Motor Vehicles	35,737,327	38,340,327	2,603,000	
Other Property, Plant, and Equipment	869,212	0	869,212		
<b>Sub-Total for AC IV Variance</b>				<b>P 29,160,248</b>	
AC V	Other Land Improvements	181,564,068	181,242,420	321,648	
	Buildings	247,780,847	247,231,106	549,741	
	Other Structures	43,590,967	43,488,669	102,298	
	Office Equipment	10,394,173	14,340,293	3,946,120	
	Information and Communication Technical Equipment	1,413,060	1,333,234	79,826	
	Airport Equipment	113,967,753	358,423,104	244,455,351	
	Communication Equipment	2,908,421	7,725,921	4,817,500	
	Disaster Response and Rescue Equipment	165,715,868	168,150,273	2,434,405	
	Motor Vehicles	8,496,494	11,124,824	2,628,330	
	Other Machinery and Equipment	19,193,933	26,516,092	7,322,159	
	<b>Sub-Total for AC V Variance</b>				<b>P 266,657,378</b>

Location	Accounts	Per books	RPCPPE	Absolute Variance
AC IX	Other Land Improvements	289,947,667	273,867,907	16,079,760
	Airport Systems	1,975,046,877	3,442,384,341	1,467,337,464
	Buildings	256,878,599	272,742,429	15,863,830
	Other Structures	25,500,526	22,131,272	3,369,254
	Office Equipment	15,716,142	20,801,459	5,085,317
	Furniture & Fixtures	1,117,727	1,306,150	188,423
	Information and Communication Technical Equipment	4,920,225	21,338,945	16,418,720
	Airport Equipment	90,019,061	126,921,295	36,902,234
	Communication Equipment	45,228,718	84,904,636	39,675,918
	Disaster Response and Rescue Equipment	162,458,630	158,446,729	4,011,901
	Other Machinery and Equipment	287,143	0	287,143
	Motor Vehicles	11,070,509	19,327,623	8,257,114
	Other PPE	7,783,756	9,378,784	1,595,028
<b>Sub-Total for AC IX Variance</b>				<b>P 1,615,072,106</b>
AC XI*	Property and Equipment	14,118,547,692	13,224,442,178	<b>P 894,105,514</b>
AC XII	Land	1,044,369,250	261,173,000	<b>P 783,196,250</b>
<b>Grand Total of Variance</b>				<b>P 7,380,917,405</b>

\*Balances were from CY 2023 AAR.

1.8. Verification of documents pertaining to the above table disclosed the following:

- a. Variance in CAAP-Head Office (HO): Examination of the accounting records and the RPCPPE submitted by the Civil Aviation Authority of the Philippines – Head Office (CAAP-HO) revealed a variance of P3.789 billion. The audit identified several contributing factors to this variance: (1) the submitted RPCPPE reflected only the balances as of CY 2023 and did not include CY 2024 transactions; (2) numerous items in the RPCPPE marked as “not reconciled”, “found at station”, or “not recorded in the books”, lacked essential details, particularly costs or values; (3) various properties recorded in the books of accounts were not included in the RPCPPE, as they pertained to Department of Transportation (DOTr) and CAAP projects or adjustments made by CAAP-HO for Area Centers (ACs); (4) certain properties listed in the RPCPPE were not found in the books; and (5) the one-time cleansing process was still ongoing, including appraisal, reconciliation, recognition of items found at stations, and disposition of non-existing/missing PE items.
- b. Discrepancy in AC II: A variance of P4.099 million was noted, involving properties with an aggregate amount of P3.883 million that were reported missing and are subject to investigation; and property costing P215,730 was found at Cauayan Airport but remained unrecorded, pending verification of details and supporting documents.
- c. Unresolved variance in AC IV: An aggregate variance of P29.160 million between the costs recorded in the books and those reflected in the RPCPPE remained unresolved as of year-end, undermining

the reliability and accuracy of the PE balances in AC IV's financial report.

- d. Variance in AC V: A total discrepancy of P266.657 million was noted in AC V due to the following factors: (a) properties included in the RPCPPE but not reflected in the Lapsing Schedules or vice versa, (b) timing difference in the preparation of the 2024 RPCPPE and the recording of year-end acquisitions, derecognition of unserviceable properties or adjustments made prior to the closing of the books of accounts, and (c) incomplete implementation of the One-Time Cleansing of PE accounts.
  - e. Unrecorded Equipment in AC IX: A variance of P1.615 billion was attributable to *Airport Systems, ICT Equipment, Airport and Communication Equipment* acquired in previous years that were delivered to and received by AC IX. However, these assets had not yet been recorded, as the relevant vouchers and supporting documents were still with the CAAP-HO.
  - f. Outstanding Reconciliation in AC XI: Result of validation disclosed that the P894.106 million variance for CY 2023 remained unreconciled. The Accounting Unit is in the process of reconciling the discrepancies between the RPCPPE and the books of accounts.
  - g. *Land* account discrepancy in AC XII: The RPCPPE for the *Land* account reflected only P261.173 million, covering the Butuan Airport, out of the P1.044 billion recorded in the books of account. This resulted in a variance of P783.196 million. Furthermore, the RPCPPE for Tandag, Bislig, Siargao, and Surigao Airport had not yet been submitted.
- 1.9. Meanwhile, the existence of the PE account balance with an aggregate cost of P28.937 billion could not be verified due to the non-submission of RPCPPE, as follows:
- a. For AC VI: The year-end PE account balance of P24.588 billion could not be verified because AC VI did not submit its RPCPPE within the prescribed deadline. Furthermore, despite prior years' recommendations to reconcile the accounting records with the RPCPPE, a review of the PE general ledger showed that no adjusting entries had been made to reflect such reconciliation.
  - b. For AC VIII: Despite requests for the submission of the CY 2024 RPCPPE, AC VIII was unable to provide the required report, as they were undergoing One-Time-Cleansing activity. As a result, the PE balance of P4.349 billion could not be verified.

- 1.10. CAAP Authority Order (AO) No. 206-2023, and related CAAP memoranda dated December 28, 2023 and February 5, 2025 defined the CAAP Inventory and Reconciliation Committee's (CIRC) duties and responsibilities and set forth detailed instructions, including the approved Physical Inventory Plan (PIP), as well as the target date of completion on September 2024, to ensure effective implementation of COA Circular No. 2020-006 on the one-time cleansing of CAAP's PE accounts. These issuances directed all heads of offices, airports, and facilities to fully support CIRC members to ensure accurate and efficient inventory management. In cases where the accountable person for the property to be inventoried is on leave or official travel during the count, such person is directed either a) to temporarily turn over or entrust the item to the representatives for inclusion in the inventory, or b) to present the item/s for validation not later than two weeks after the original inventory schedule.
- 1.11. The non-submission of RPCPPE and non-reconciliation of variances indicated non-compliance with the aforementioned guidelines. This lapse had resulted in several consequences, including outdated property and accounting records, non-renewal of Property Acknowledgment Receipts (PARs), non-preparation of a listing of PEs found at the station, missing items, incomplete Inventory and Inspection Report of Unserviceable Property (IIRUP), and unrecorded acquisition of PEs. It also reflected the non-implementation of key inventory controls, such as the assignment of unique property numbers, issuance of property tags and stickers, and enforcement of procedures to ensure the overall integrity and accuracy of PE account balances.
- 1.12. Due to the aforementioned, the accuracy of the PE account balance as of December 31, 2024, could not be established.
- 1.13. **We reiterated our prior years' recommendations, with modifications, that Management direct the following:**
- a. **CAAP Inventory and Reconciliation Committee (CIRC), in coordination with the Supply (SD) and Accounting Divisions (AD) of CAAP-HO and ACs II, IV, V, VI, VIII, IX, XI, and XII to ensure adherence to COA Circular No. 2020-006 and CAAP AO No. 206-2023, regarding the One-Time Cleansing of PE account balances of CAAP to identify causes of the variances between the books of accounts and RPCPPE balances and to reconcile these variances accordingly;**
  - b. **Accounting Division/ Offices of CAAP-HO and ACs II, IV, V, VI, VIII, IX, XI, and XII to make the necessary adjustments for appraisals, recognition of PE items found at stations, and disposition of non-existing/missing PE items, if warranted, to accurately reflect PE account balances;**
  - c. **Supply and Accounting Divisions of CAAP-HO and ACs to strictly maintain updated and accurate Property Cards (PCs) and Property, Plant, and Equipment Ledger Cards (PPELCs) for all PE items to ensure proper recording of accountability, movement, and disposition of assets; and**

- d. **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 present the PE items, if appropriate.**
- 1.14. **We further recommended that Management direct:**
- e. **AC IX to coordinate with CAAP HO to determine the status of, and follow up on, the transfer of vouchers and supporting documents for PEs received, prioritizing those delivered earlier;**
  - f. **CIRC, in coordination with the Supply and Accounting Divisions of CAAP-HO and ACs, to:**
    - i. **Prioritize the timely submission of reconciled RPCPPEs, ensuring inclusion of all required supporting reports, such as the list of PEs physically found at the station and those identified as missing; and**
    - ii. **Strengthen internal controls over property management by: conducting regular physical inventories, promptly reconciling records, updating property and ledger cards, properly tagging all PE items, assigning clear responsibilities and timelines for each activity, and consistently monitoring compliance to ensure timely, accurate, and complete submission of the RPCPPE.**
- 1.15. CAAP-HO Management stated that the Accounting and Supply Divisions were coordinating the preparation of the RPCPPEs, necessary reports, and a working paper to explain the variances between accounting and supply records. They also committed to integrating process improvements into the Quality Management System Manuals to strengthen controls and monitoring.
- 1.16. In addition, they identified in their reconciliation working paper P5.377 billion in missing PE items and P3.598 billion PE items recorded in supply records but not in the accounting books.
- 1.17. Management of AC II agreed to comply with the recommendations through the finalization of the One-Time Cleansing of PEs until March 2025. For Basco Airport, the Management commented that they had located the PEs reported as missing amounting to P0.661 million, but they are still subject to further validation.
- 1.18. AC IV Property Officer committed to expedite the completion of the one-time cleansing procedures.
- 1.19. The Accounting In-charge of AC V stated that during the one-time cleansing conference, it was agreed that the CAAP-HO would record the PE of ACs found at stations during the physical count. Identified missing items would be investigated by the ACs. The one-time cleansing of PE was targeted for completion by May 15, 2025.

- 1.20. Management of AC VI explained that due to time constraints, the physical inventory as of December 31, 2024, was not completed on the set deadline. Satellite stations were instructed to conduct their own counts and submit the results to the Inventory Committee for reconciliation. Management assured the submission of the RPCPPE upon completion of the physical count and reconciliation.
- 1.21. Management of AC VIII explained that due to the ongoing one-time cleansing of PE, they inadvertently overlooked the conduct of the current year's physical inventory; hence, the corresponding RPCPPE was not prepared. They committed to rectifying the oversight and submitting the updated RPCPPE as soon as possible.
- 1.22. Management of AC IX commented that per practice, the PEs received from CAAP-HO are only taken up in the books upon the transfer of documents to the satellite airports. The delay in the recording caused the balance in the RPCPPE to be higher than the accounting records. Lastly, the Management disclosed that items not recorded but considered as "found in station" were recorded in the CAAP-HO books. The Management agreed to adhere to the audit recommendations.
- 1.23. AC XI's Accounting Unit is currently in the process of reconciling the balances reported in the RPCPPE with those in the books of accounts.
- 1.24. Management of AC XII commented that the one-time cleansing is ongoing, and *Land* account is one of the accounts being reconciled. Further, a more thorough assessment of the records between the books and of the Technical Working Group (TWG) would be undertaken.
- b) *Variance between General Ledger and Subsidiary Ledgers amounting to P104.350 million as of December 31, 2024***
- 1.25. This is a reiteration of our observations from CYs 2021 to 2023 AARs, with updated information.
- 1.26. 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.
- 1.27. Comparison between the balances of the GL and SLs for PE accounts disclosed a variance of P104.350 million. Details are presented in Table 2.

**Table 2. Variance Between GL and SLs**

Location	Account Title	Per GL/FS	Per SL/Lapsing Schedule	Absolute Variance
HO	Property and Equipment	P 10,537,280,511	P 10,537,013,947	P 266,564
	Accumulated Depreciation	3,966,430,910	3,968,788,442	2,357,532
	Depreciation Expense	936,818,955	909,301,748	27,517,207
AC X	Property and Equipment	1,744,425,552	1,695,829,795	48,595,757
	Accumulated Depreciation	1,378,746,290	1,364,187,295	14,558,995
	Depreciation Expense	28,711,465	39,765,381	11,053,916
				<b>P104,349,971</b>

- 1.28. The Accounting Division (AD) at CAAP-HO attributed the variance to the following factors: (1) unreconciled prior years' transactions and adjustments pending reconciliation due to the unavailability of supporting documents; (2) adjustments for Area Centers (ACs) recorded at the Head Office after the closure of AC books, reflected in the GL but not posted in the SLs; and (3) completed DOTr downloaded projects recorded in the GL but not in the SL.
- 1.29. Moreover, various PE items of AC X remained unvalued due to the limited capacity of the local appraiser team to conduct assessments. This resulted in incomplete data in the reports and insufficient supporting documentation, thereby hindering the reconciliation of account balances.
- 1.30. Due to unreconciled variances between GL and SL balances, the balances of various PEs and depreciation-related accounts as of December 31, 2024, were deemed inaccurate and unreliable.
- 1.31. **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, reconcile the GL and SL balances, and prepare the necessary adjusting entries, if warranted;**
  - b. **AC X to require 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 PE amounts and related depreciation expenses for the fair presentation of financial statements, with copies of adjustments furnished to COA;**
  - c. **AC X Accounting Unit and the Property and Supply Office/Unit to maintain Property, Plant, and Equipment Ledger Cards (PELC) and Property Cards (PC) for all existing and newly acquired PE, to ensure that the balances of both cards are always reconciled; and**
  - d. **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 PE.**
- 1.32. **We further recommended that Management direct the CAAP-HO AD to ensure that all adjustments related to AC accounts and completed DOTr**

**projects are accurately recorded in their respective books and duly supported with adequate documentation.**

- 1.33. CAAP-HO AD committed to complying with the audit recommendations.
- 1.34. The Property Custodian of AC X commented that all necessary reports had been completed and submitted to the Head Office in compliance with the requirements for the One-Time-Cleansing (OTC) of PE accounts. He also explained that the annual physical inventory was conducted despite the ongoing OTC. Management committed to maintaining and updating property and ledger cards for all existing and newly acquired PE.
- 1.35. The AC X Audit Team requested copies of the documents submitted to CAAP HO for the initial verification of information, validation of records, and the inventory conducted at AC X.

**c) *Non-recognition of certain properties resulted in the understatement of PE accounts by at least P341,325, Accounts Payable by P341,325, as well as depreciation and Semi-Expendable Property accounts by undetermined amount***

- 1.36. This is a reiteration of our observations from CYs 2022 to 2023 AARs, with updated information.
- 1.37. 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 would redound to the entity and that its cost can be measured reliably.
- 1.38. Analysis of the account disclosed that various properties that were either purchased by CAAP, 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 CAAP. Details are presented in Table 3.

**Table 3. Details of Unrecorded Properties**

Location	Account	Particulars	Cost
HO	Land	CAAP Administrative Compound, Manila Control Tower, and CAAP Hangar	Undetermined amount
		Manila Radar (TCT No. 141810)	Undetermined amount
		Other Property, Plant, and Equipment/ Semi-expendable Property	Undetermined amount
AC II	Construction in Progress	Vegetation Control Tuguegarao Airport; Provision of Signages for Tuguegarao Airport; Construction for Transformer Pad Support at Aparri SSR; and Repair/Repainting of Runway Taxiway, Ramp markings, and marker at Cauayan Airport	341,325

- 1.39. Inquiry with CAAP-HO disclosed that the Real Estate Titling Task Force (RETTF) had been actively coordinating with the Manila International Airport Authority (MIAA), including holding several meetings, to facilitate the transfer of titles for lots currently occupied by CAAP but still registered under MIAA.
- 1.40. With regard to the 61 units of firearms, CAAP-HO Supply Division (SD) had not yet received quotations from suppliers, and its request for assistance in conducting an appraisal from the Philippine National Police – Logistics Support Service (PNP-LSS) was still pending.
- 1.41. Meanwhile, inquiry with AC II disclosed that the ongoing projects were not recorded in the books of accounts as costs incurred to date had not yet been paid, and billing statements and Statements of Work Accomplished (SWA) from the contractor/s or supplier/s had not yet been received.
- 1.42. The non-recognition of the properties presented in Table 3 resulted in the understatement of the *Land, Other Property, Plant, and Equipment, Construction in Progress* by at least P341,325, *Accounts Payable* by P341,325, as well as *Accumulated Depreciation, Depreciation Expense, and Semi-Expendable Property* accounts by an undetermined amount.
- 1.43. **We reiterated our prior year’s recommendations, with modification, that Management direct:**
- a. CAAP-HO to:**
- i. Require the Real Estate Titling Task Force (RETTF), in coordination with the Asset Management Division (AMD), Aerodrome Development and Management Service (ADMS), Supply Division (SD), and Accounting Division (AD), to expedite the validation of unrecorded land by securing the necessary documents (e.g., property transfer documents, appraisal reports, journal entry vouchers, land titles, etc.) and coordinating with the source agencies to support the transfer and recognition of these properties;**
  - ii. Instruct the SD and AD to secure the necessary documentation to substantiate the acquisition of the firearms, determine their cost, and, if necessary, initiate an appraisal to assess their value;**
  - iii. Direct the AD to make the necessary adjustments to ensure the accurate recognition and recording of these properties in CAAP’s books of accounts, reflecting correct balances of the affected accounts in the financial statements;**

1.44. We further recommended that Management direct:

b. AC II to:

- i. Prepare a **Statement of Work Accomplishment**, duly concurred by the concerned contractors, of all ongoing projects to facilitate the determination and recording of cost incurred to date, most especially at year-end;
- ii. Instruct the concerned Engineer and the Accountant to reconcile their records and reports as to the status and costs incurred for the various projects of CAAP; and
- iii. Moving forward, ensure that the costs of all ongoing projects are completely recorded in the books of accounts as **Construction in Progress** when incurred, not when paid.

1.45. CAAP-HO acknowledged the observations and agreed to comply with the audit recommendations.

1.46. In addition, the CAAP-HO SD informed that they had been verifying the appraised values of the 61 firearms using cost evaluations from the Philippine National Police (PNP), with valuations for 44 firearms already completed. They stated that firearms classified as PE would be reported in the IIRUP and endorsed to the CAAP-HO AD, while those classified as Semi-expendable Property would be included in the IIRUSP. Moreover, the Property Disposal Committee committed to facilitate the disposal process by transferring the items to the PNP Firearms and Explosives Office (FEO).

1.47. Management of AC II committed to preparing the duly concurred SWA for the ongoing projects to recognize the costs incurred as Construction in Progress and agreed to reconcile reports between the Accounting and Engineering Office on the status of government Programs, Projects, and Activities (PPAs).

**d) *Misstatements on various PE and related accounts due to erroneous recording of transactions, misclassification of items, and computational errors in depreciation***

**(1) *Improper capitalization of input taxes amounting to P7.885 million***

1.48. The National Internal Revenue Code (NIRC) defines Value-added Tax (VAT) as a tax on consumption levied on the sale, barter, exchange, or lease of goods or properties and services in the Philippines and on the importation of goods into the Philippines. It is an indirect tax that may be shifted or passed on to the buyer, transferee, or lessee of goods, properties, or services.

1.49. Meanwhile, input taxes pertain to VAT on goods and services procured by CAAP, while output taxes refer to VAT on the services it renders. Input taxes

are offset against collected output taxes, resulting in either VAT payable if output taxes exceed input taxes, or Creditable Input Tax (CIT) if vice versa.

- 1.50. Examination of transactions recorded in the GL and the Lapsing Schedules of CAAP-HO disclosed that the AD erroneously capitalized the input taxes of P7.885 million on multiple projects and equipment procured by CAAP. These input taxes should have been recognized as Creditable Input Tax and reported in CAAP's VAT return for CY 2024. According to AD, the delayed submission of supporting invoices by end-users prevented timely VAT claims. To avoid the potential risks of triggering a BIR audit through amended returns, the AD instead capitalized the input taxes amounting to P7.885 million as part of the cost of several PE accounts.
- 1.51. Capitalizing input taxes not only overstated the value of PE and the related depreciation but also compromised the accuracy of tax filings, which might expose CAAP to penalties and affect the fair presentation of its financial statements.

**(2) Misclassifications of transactions with a total cost of P11.691 million**

- 1.52. Annex C of the COA Circular No. 2020-002 dated January 28, 2020, *Adoption of the Updated Revised Chart of Accounts (RCA) for Government Corporations (GCs)*, provides detailed information on the updated accounts included in the RCA for GCs to serve as a comprehensive guide for accounting personnel in understanding the structure and application of each account.
- 1.53. Review of the accounts disclosed that various transactions recorded in *Other Equipment, Buildings, and Other Structures* accounts with an aggregate acquisition cost of P11.691 million and aggregate carrying value of P7.405 million should have been recorded to *Aircraft and Airport Ground Equipment, Other Structures, and Buildings* accounts.
- 1.54. CAAP-HO informed the Audit Team of its plan to develop an accounting policy for classifying PE items. While Management has the prerogative to formulate and implement its own accounting policies, such policies must remain consistent with the applicable standards, laws, rules, and regulations to ensure compliance, transparency, and reliability of financial reporting.
- 1.55. Although the noted misclassifications did not affect the total cost of the PE accounts, they affected the provision for depreciation due to the incorrect estimated useful life of the assets. We emphasized that the estimated useful life of PE accounts depends on their classification. These useful lives were estimated and used by CAAP in depreciating property and equipment, as reflected in their Notes to Financial Statements, and were subject to review and adjustment only if there was a significant change in the asset or its usage.

**(3) Incorrect/inconsistent application of residual value rate, hard-coded items, missing formulas, and incorrect computation of depreciation**

- 1.56. COA Circular No. 2017-004 dated December 13, 2017, Guidelines on the preparation of the financial statements and other financial reports and

implementation of the Philippine Financial Reporting Standards by Government Corporations Classified as Government Business Enterprises and Philippine Public Sector Accounting Standards by Non-Government Business Enterprises, suggests that the change in the estimated residual value to at least five per cent of the cost of the asset shall be applied prospectively. The said Circular also provides that the estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets and that the agency/entity is in the best position to estimate the expected useful life of its PE.

- 1.57. A review of the Lapsing Schedules and the recalculation of depreciation revealed misstatements in the Accumulated Depreciation and Depreciation Expense accounts, as shown in Table 4.

**Table 4. Summary of Misstatements**

Account Title	Per Lapsing Schedule	Per Audit	Absolute Variance
<b>Accumulated Depreciation</b>			
Accumulated Depreciation - Other Land Improvements	P 59,625,489	P 59,618,887	P 6,602
Accumulated Depreciation - Power Supply Systems	3,832,238	4,033,935	201,697
Accumulated Depreciation - Building	315,315,178	304,768,208	10,546,970
Accumulated Depreciation - Other Structures	64,140,859	64,036,488	104,371
Accumulated Depreciation - Airport Equipment	446,637,771	449,586,073	2,948,302
Accumulated Depreciation - Communication Equipment	571,290,732	570,736,177	554,555
Accumulated Depreciation - Medical Equipment	11,051,492	10,972,223	79,269
Accumulated Depreciation - Technical and Scientific Equipment	16,472,814	21,260,626	4,787,812
Accumulated Depreciation - Other Machinery & Equipment	38,345,320	34,751,270	3,594,050
<b>Depreciation Expense</b>			
Depreciation - Land Improvements	13,953,655	13,957,001	3,346
Depreciation - Infrastructure Assets	675,174,022	675,302,482	128,460
Depreciation - Buildings and Other Structures	59,323,359	59,458,027	134,668
Depreciation - Machinery and Equipment	152,735,203	157,600,746	4,865,543
			<b>P 27,955,645</b>

- 1.58. The following are the factors contributing to the misstatements of the *Accumulated Depreciation* and *Depreciation Expenses*:

- a. Incorrect/inconsistent application of the residual value rate. Based on inquiries with AD, CAAP applied a five per cent residual value rate, as supported by the lapsing schedule. However, some PE items were depreciated without consistently applying the five per cent residual value rate prospectively.
- b. The Audit Team noted that various items in the lapsing schedule were hard-coded or lacked traceable formulas to support the depreciation computation. In addition, some items did not indicate acquisition dates, which are essential for accurately computing depreciation.
- c. Inaccurate or unrecorded depreciation on recently added Items. Several PE items that were recently included in the lapsing schedule, some of which were acquired in prior years, either had no depreciation or reflected inaccurate depreciation amounts.

1.59. As a result, the accuracy and reliability of the PE account balance could not be ascertained.

1.60. **We recommended, and Management agreed to direct:**

**a. CAAP-HO to:**

- i. Thoroughly review transactions and prepare the necessary adjusting entries to reflect the correct amounts of Input Tax, PE, and the related depreciation accounts;**
- ii. File amended VAT returns with the BIR to accurately report the amount of input taxes;**
- iii. Develop and implement policies or guidelines to ensure the timely submission of all supporting documents required for tax compliance;**
- iv. Conduct a comprehensive review of the Lapsing Schedule to ensure the accurate calculation and proper recognition of depreciation in the books of accounts;**
- v. Prepare the necessary adjusting entries, if warranted;**

**b. AC II to collaborate with the Head Office to formulate a written policy on the proper classification of PE items; and**

**c. Area Accountant of AC II to prepare the necessary adjusting entries to reclassify the PE items to the appropriate PE accounts and update the corresponding depreciation.**

**e) *Inadequate accounting records to substantiate the status of project completion in Area Center IX***

1.61. Verification of AC IX's financial statement for CY 2024 revealed a balance of the *Construction in Progress* (CIP) account amounting to P11.754 million. Inquiry disclosed that the P8.034 million beginning balance of CY 2013 had remained unchanged/non-moving until this date due to a lack of records or documents to support the details of the balance. Management initiated the retrieval of relevant documents to substantiate the recorded CIP account and facilitate its proper reclassification to the appropriate PE account. This reclassification is necessary for the recognition of depreciation and the corresponding adjustment to Retained Earnings. However, despite these efforts, no adjustments have been made. The lack of adequate accounting records to support the recorded CIP amount, along with the non-reclassification thereof, resulted in an understatement of the related PE accounts and the related depreciation.

- 1.62. **We recommended that Management ensure that the Area Accountant continues retrieving documents to determine the details of the CIP account and immediately records or adjusts the CIP account once sufficient documentation has been obtained.**
- 1.63. Management explained that, due to the lack of supporting documents, they were unable to determine the specific details of the amounts recorded in the CIP account, but they agreed to adhere to the audit recommendations.
2. **The faithful representation of the *Accounts Receivable (AR)* and *Operating Lease Receivable (OLR)* accounts with carrying value of P3.795 billion and P339.748 million, respectively, could not be ascertained due to the existence of past due and dormant accounts; inadequate allowance for impairment/expected credit losses; unreconciled variances; unconfirmed balances; and abnormal and negative receivable 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 CAAP 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 P3.405 billion or 48.10 per cent of the receivable balance per SL/Aging Reports, including dormant accounts amounting to P1.716 billion***
- 2.4. This is a reiteration of our observations from CYs 2016 to 2023 Annual Audit Reports (AARs), with updated information.
- 2.5. Part V and VI of 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 set payment terms and consequences for non-payment of air navigation fees, requiring payment within 15 days upon receipt of billing and imposing a 12 per cent annual interest on delayed payments. Failure to pay upon CAAP's demand may lead to rejection of flight plans, denial of the use of facilities and services of CAAP, suspension of CAAP-issued certificates and other licenses, enforcement of liens on debtor properties under RA No. 9497 and other international laws, and the exercise of other legal remedies available to CAAP.
- 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 as 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 AR/OLR of CAAP as of December 31, 2024, showed the following:

**Table 5. Report on Aging of AR/OLR (SL) as of December 31, 2024**  
(amounts in millions)

	Non-current accounts / Past Due accounts					
	Total (SL balances)	Current accounts	Non-current accounts	ATO accounts	Uncollected balances from an Airline Company	Total Past Due
<b>CAAP-HO</b>	<b>P 4,971.049</b>	<b>*P 2,884.104</b>	<b>P 663.882</b>	<b>P 100.207</b>	<b>P 1,322.856</b>	<b>P 2,086.945</b>
AC I	30.447	12.061	12.750	5.636	0.000	18.386
AC II	30.089	14.482	14.551	1.056	0.000	15.607
AC III	52.917	12.903	30.914	9.100	0.000	40.014
AC IV	107.909	74.184	33.633	0.092	0.000	33.725
AC V	62.611	43.835	13.282	5.494	0.000	18.776
AC VI	590.844	121.043	463.326	6.475	0.000	469.801
AC VII	176.090	94.401	62.453	19.236	0.000	81.689
AC VIII	107.187	35.102	72.085	0.000	0.000	72.085
AC IX	102.162	29.170	72.992	0.000	0.000	72.992
AC X	265.735	96.698	153.702	15.335	0.000	169.037
AC XI	555.184	241.768	249.959	63.457	0.000	313.416
AC XII	26.454	14.055	12.399	0.000	0.000	12.399
<b>AC Total</b>	<b>P 2,107.629</b>	<b>P 789.702</b>	<b>P1,192.046</b>	<b>P 125.881</b>	<b>P 0.000</b>	<b>P 1,317.927</b>
	<b>P 7,078.678</b>	<b>P 3,673.806</b>	<b>P1,855.928</b>	<b>P 226.088</b>	<b>P 1,322.856</b>	<b>P 3,404.872</b>
<b>Percentage</b>	<b>100%</b>	<b>51.90%</b>	<b>26.22%</b>	<b>3.19%</b>	<b>18.69%</b>	<b>48.10%</b>

\*Inclusive of the accrual of income from Transportation System Fees and Communication Network Fees accounts aggregating P218.049 million and P15.439 million, respectively.

- 2.8. Analysis of the aging schedule disclosed that a significant portion of receivables, amounting to P3.405 billion or 48.10 per cent of the total P7.079 billion, remained unsettled for over one to more than 10 years. Of this amount, P226.088 million pertained to uncollected receivables of the former Air Transportation Office (ATO), which were carried over to CAAP's books of accounts in CY 2008, without supporting documentation. The balance 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, IV, V, VI, VIII, IX, X, XI, and XII. Thus, the probability of collection was remote.
- 2.9. The P1.323 billion or 18.69 per cent of the total receivable balance pertained to the unsettled balance of an Airline Company following a compromise agreement with CAAP dated October 6, 2017. Although CAAP accepted the Airline Company's final proposal in 2017 to settle its outstanding obligations, this resulted in an under-collection of P1.323 billion. Subsequent efforts to enforce collection through a demand letter in June 2022 were hindered by the AD's delay in retrieving the pertinent documents to substantiate the amount demanded.
- 2.10. Meanwhile, as part of Management's implementation of the prior year's audit recommendation, the CAAP-HO AD issued demand letters and Collection

Notices/Statements of Accounts (SOA) in the total amount of \$25.210 million and P2.397 billion from January 2024 to April 2025. However, the Audit Team noted that AD was unable to promptly issue billings for interests on delayed payments. Thus, the corresponding receivables and related income under Fines & Penalties were not recognized in CY 2024 books of accounts. Instead, the AD merely issued demand letters for interest charges to selected clients, specifically 43 domestic air operators, in April 2025, amounting to \$473,452. Moreover, international airlines or foreign clients were not covered due to the absence of detailed policies and guidelines necessary for effective implementation.

- 2.11. As a result of Management’s collection efforts, CAAP-HO collected a total of P10.409 billion in CY 2024 including P2.120 billion from past-due accounts as of December 31, 2024. Despite these efforts, CAAP’s past-due accounts remained substantial. The material amount of long-overdue accounts exposed CAAP to liquidity risk and reduced the amount of funds that could have been used in its operations.
- 2.12. Management also considered requesting authority to write off the dormant accounts in accordance with COA Circular No. 2023-008. The AD in CAAP HO and all ACs had prepared a Schedule of Dormant Accounts for AR & OLR, identifying P1.716 billion dormant balances as of December 31, 2024, as shown in Table 6.

**Table 6. Dormant Balances from AR/OLR Accounts  
as of December 31, 2024**

Location	AR	OLR	Total
<b>HO</b>	<b>P 1,469,961,000</b>	<b>P 0</b>	<b>P 1,469,961,000</b>
AC I	7,476,304	569,907	8,046,210
AC II	1,469,971	1,100	1,471,071
AC III	21,596,836	5,635,202	27,232,038
AC IV	506,797	1,758,456	2,265,253
AC V	2,110,290	4,907,664	7,017,954
AC VI	16,496,284	0	16,496,284
AC VII	26,499,273	523,167	27,022,440
AC VIII	40,553,325	13,040	40,566,365
AC IX	29,404,920	1,963,502	31,368,423
AC X	21,189,097	0	21,189,097
AC XI	40,023,666	23,552,561	63,576,227
AC XII	134,707	0	134,707
<b>AC Total</b>	<b>P 207,461,470</b>	<b>P 38,924,599</b>	<b>P 246,386,069</b>
	<b>P 1,677,422,470</b>	<b>P 38,924,599</b>	<b>P 1,716,347,069</b>

- 2.13. Pursuant to CAAP Authority Order No. 273-2024, an Investigation Committee was formed to review the loss or destruction of documents, determine accountability, and assess negligence, following COA Circular No. 2023-008. As of the report date, the respective Audit Teams in CAAP-HO and ACs had not yet received the Request for Write-Off (RWO) for the derecognition of dormant accounts.

- 2.14. **We reiterated our previous years' recommendations, with modification, and Management agreed to instruct the Accounting Division in CAAP-HO and all ACs to:**
- a. **Intensify collection by issuing monthly Statement of Accounts (SOA) and/or Collection Notices to all Air Operators, detailing current billings and arrearages. Continuously send demand letters to delinquent clients and exhaust all available remedies to collect outstanding amounts;**
  - b. **Diligently implement and enforce existing policies and procedures on collection, in strict compliance with the provisions of CAAP MC No. 018-2023. Additionally, ensure the consistent application of the 12 per cent per annum interest on all delinquent accounts;**
  - c. **Exert diligent effort to locate all necessary supporting documents essential for verifying the existence and validity of long-outstanding and dormant receivables; 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 the CAAP-HO AD actively issued demand letters to delinquent clients and committed to the regular issuance of monthly SOAs and Collection Notices (CNs) to all Air Operators. SOAs for the top five local airlines were sent more than once a month due to frequent accounting clearance requests, while those for other airlines were issued quarterly due to the absence of an automated billing system.
- 2.16. To strengthen revenue collection, Management pursued all available remedies and committed to implementing CAAP MC No. 018-2023. This included the consistent application of a 12 per cent per annum interest on all delinquent accounts with corresponding interest charges billed after validating payments.
- 2.17. The CAAP-HO AD also claimed that they actively verified the existence and validity of long-outstanding and dormant receivables by thoroughly reviewing existing records and coordinating with relevant departments to locate necessary supporting documents. They also committed to evaluating these accounts and compiling all required documentation in compliance with COA Circular No. 2023-008. Upon completing these procedures, they intend to submit a formal request for authority to write off the accounts, ensuring proper handling in accordance with regulatory standards.
- 2.18. Management of AC I committed to reconciling long-overdue accounts and providing clients with monthly statements of account. They furnished the Audit Team copy of the Investigation Report dated March 11, 2025. To date, they are still finalizing the list of accounts to be included in the Request for Write-off.

- 2.19. Management of AC II agreed to comply with the audit recommendations and committed to enhancing their collection efforts and enforcing timely payments from Concessionaires by sending follow-up letters. They also issued a memorandum directing the Concession-in-Charge to identify and submit accounts outstanding for over 10 years.
- 2.20. Management of AC IV commented that they are also enhancing collection efforts by issuing demand letters, enforcing penalties, and referring long-outstanding accounts to the Enforcement and Legal Service.
- 2.21. Management of AC VI commented that the investigation report for the RWO of dormant accounts had been submitted for approval by the Director General. They also sent quarterly Notices of Settlement to demand payment and withhold clearances from delinquent concessionaires to support collection efforts.
- 2.22. Management of AC X commented that although three batches of demand letters were sent to debtors, most were returned. Some death certificates were obtained, but others remained unavailable. In coordination with CAAP-HO, AC X began gathering documents, after which they intend to submit the investigation report for the Director General's approval. Once approved, the request for write-off/derecognition of dormant accounts would be submitted to the Audit Team.

**b) *Inadequate allowance for impairment/expected credit losses (ECL) as required under PFRS 9***

- 2.23. This is a reiteration of our observations from CYs 2022 to 2023 AARs, with updated information.
- 2.24. Paragraph Nos. 5.2 and 5.2.1. of PFRS 9, *Financial Instruments*, provides that after initial recognition, financial instruments shall be measured at amortized cost or fair value (through profit or loss or other comprehensive income), depending on the classification by reference to the business model within which these are held and their contractual cash flow characteristics. The standard also provides that an entity shall apply the impairment requirements in Section 5.5, Recognition of ECL to these financial assets.
- 2.25. Moreover, paragraph 5.5.17 of PFRS 9, Measurement of ECL provides that an entity shall measure the ECL of a financial instrument in a way that reflects the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost and effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.
- 2.26. Based on CAAP's practice, the Net Realizable Value of Accounts Receivable (AR)/Operating Lease Receivable (OLR) was measured at the principal amount less the Allowance for Impairment. At the end of the reporting period,

CAAP recognized an allowance for impairment losses to cover expected credit losses on these receivables.

- 2.27. Verification revealed that while 100 per cent impairment loss was recognized for dormant receivable balances, including ATO accounts and uncollected accounts from an Airline Company, the rates applied for computing impairment losses varied and were deemed relatively low. Current accounts (outstanding for less than 90 days but not exceeding 365 days) were subjected to impairment rates ranging from two to three per cent, while past-due accounts were assigned a uniform rate of five per cent.
- 2.28. Furthermore, the uniform five per cent impairment rate applied to past-due accounts aged over one to three years and beyond, from July 2008 to December 2022, did not consider significant factors such as the increased credit risks, the time value of money, and other factors affecting CAAP's expected future cash flows. Additionally, the economic impact of the COVID-19 pandemic on the aviation industry, which heightened CAAP's exposure to credit risks and clients' payment defaults, was not factored into the computation of impairment losses. Thus, the Allowance for Impairment/Expected Credit Loss for past due receivable accounts with a carrying value of P1.650 billion was deemed inadequate.
- 2.29. On December 9, 2024, CAAP conducted an in-house seminar on PFRS 9 – Financial Instruments, facilitated by SyCip Gorres Velayo & Co. (SGV). The seminar extensively discussed the application of the ECL approach. However, the Accounting Division (AD) explained that a reasonable estimate of impairment could not yet be provided due to challenges in establishing a reliable historical data set for ECL computation. They noted that the integrity of the available data had been affected by abnormal fluctuations during the COVID-19 pandemic. In addition, a detailed review and evaluation of CAAP's receivables portfolio had not yet been completed.
- 2.30. Upon inquiry, the AD disclosed that an initial ECL computation had been performed; however, it produced abnormal balances. They attributed this to bulk payments made by airline companies, which led to an unusually high loss rate within the first 90 days of the analysis period.
- 2.31. Given these limitations, the AD opted to retain the existing method of computing the allowance for impairment or ECL for CY 2024. By CY 2025, they anticipated completing the evaluation of CAAP's receivables and establishing a more reliable basis for ECL computation. The recognition and measurement of ECL would then be formally incorporated into CAAP's accounting policy.
- 2.32. Due to non-compliance with the impairment requirements of PFRS 9 for the recognition and measurement of ECL, the recognized Allowance for Impairment/Expected Credit Loss was deemed inadequate. As a result, the accuracy and validity of the Accounts Receivable & Operating Lease Receivable account balances of P6.020 billion and the Allowance for Impairment-Accounts Receivable amounting to P1.885 billion as of December 31, 2024, could not be reasonably assured.

- 2.33. We reiterated our previous years' recommendations that the CAAP-HO Accounting Division:
- Comply with the impairment requirements of PFRS 9 in the recognition and measurement of Expected Credit Losses for Accounts Receivable (1-03-01-011), and accordingly, incorporate these requirements in its Accounting Policy;
  - Establish concrete plans to facilitate the completion of the detailed review and evaluation of CAAP's receivables portfolio necessary for the calculation of the Expected Credit Losses; and
  - Prepare adjusting entries to ensure the faithful representation of the receivable accounts and the related impairment loss accounts in compliance with PFRS 9.
- 2.34. Management of CAAP-HO committed to recognizing the appropriate amount of ECL to update and correct the Accounts Receivable balance based on the recalculated allowance for impairment.
- c) **Variance of P1.132 billion between the General Ledger (GL) and Subsidiary Ledger (SL) balances per Aging Reports of Accounts Receivable (AR)/Operating Lease Receivable (OLR)**
- 2.35. This is a reiteration of our observations from CYs 2016 to 2023 AARs, with updated information.
- 2.36. Comparison between GL and SL balances disclosed a variance of P1.132 billion, as shown in Table 7.

**Table 7. Variance Between GL and SL Balances of AR/OLR as of December 31, 2024**  
(Amounts in Millions)

Location	Accounts Receivable (AR)			Operating Lease Receivables (OLR)			Total Variance (Absolute Value)
	GL Balance	SL Balance	Variance (Absolute Value)	GL Balance	SL Balance	Variance (Absolute Value)	
CAAP-HO	P4,209.387	P4,979.633	P 770.246	P 2.950	P 8.642	P 5.692	P 775.938
AC I	26.441	27.043	0.602	3.488	3.488	0.000	0.602
AC II	26.202	26.979	0.777	3.241	3.241	0.000	0.777
AC III	39.681	39.758	0.077	13.159	13.159	0.000	0.077
AC IV	83.638	91.457	7.819	24.609	16.562	8.047	15.866
AC V	34.050	44.972	10.922	17.668	17.668	0.000	10.922
AC VI	586.097	590.843	4.746	0.000	0.000	0.000	4.746
AC VII	138.201	138.123	0.078	40.413	38.285	2.128	2.206
AC VIII	82.777	101.273	18.496	6.798	5.915	0.883	19.379
AC IX	77.152	84.862	7.710	17.122	17.482	0.360	8.070
AC X	94.485	178.684	84.199	76.468	87.051	10.583	94.782
AC XI	215.894	392.954	177.060	178.777	162.230	16.547	193.607
AC XII	15.696	20.520	4.824	5.933	5.933	0.000	4.824
			<b>P1,087.556</b>			<b>P 44.240</b>	<b>P1,131.796</b>

Note: The AR-GL balance of the CAAP-HO was reduced by December 2024 collections of Area Centers (ACs), amounting to P61.669 million. This was credited to Accounts Receivable instead of the "Due from Regional/Branch" accounts under Journal Entry Voucher (JEV) No. 05-2024-12-1412. To present the correct

amount of variances in the HO and ACs' books, these collections were added back to the GL balance of the HO and deducted from the respective GL balances of the ACs.

- 2.37. In CAAP-HO, the audit revealed that the variance of P775.938 million between the GL and SL balances could be attributed to the following:
- a. Adjustment made to reclassify identified collections amounting to P799.486 million from the *Undistributed Collections* account. These payments, made by clients through telegraphic and bank transfers, had already been recorded in the GL but were not posted to the corresponding SLs due to the absence of billing reference numbers indicating the specific balances to which the payments apply;
  - b. Discrepancies noted in the recorded adjustment of realized foreign exchange gains and losses on collection of foreign currency-denominated receivables, resulting in a net overstatement of the GL balance amounting to P17.316 million; and
  - c. Various disparities, mispostings, and erroneous recordings which resulted in the net understatement of the balance per Report of Aging of Receivables/SLs by at least P17.044 million.
- 2.38. In ACs IV, V, VII, VIII, IX, and XI, 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 over 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.
- 2.39. Due to the substantial amount of variance noted between the GL and SLs/Report of Aging of Receivables balances, the accuracy and reliability of the balance of Accounts Receivable as of December 31, 2024, could not be ascertained.
- 2.40. **We reiterated our previous years' recommendations, with modification, and Management agreed to instruct the following:**
- a. **Accounting Division in CAAP-HO and all ACs to conduct an in-depth examination and periodic reconciliation to identify other possible factors contributing to the variances between the GL and the SL balances, and prepare the necessary adjusting entries, if warranted;**
  - b. **Accounting Division in CAAP-HO to:**
    - i. **Identify the corresponding billing reference numbers for the P799.486 million recorded under the Undistributed Collections account and ensure that these payments are accurately and promptly posted to the appropriate clients' SLs;**

- ii. **Conduct a regular (at least quarterly) reconciliation of the Other Unearned Revenue/Income account vis-à-vis Accounts Receivable to ascertain the income already earned from advance payments of Air Navigational Charges (ANCs) and record the necessary adjusting entry/ies in the books of accounts;**
  - iii. **Review the recognized realized foreign exchange gains and losses on the collection of foreign currency-denominated receivables and prepare the necessary adjustment to correct the erroneous entries made; and**
  - iv. **Submit to the Audit Team the revised Report of Aging of Receivables and the corresponding Subsidiary Ledgers (SLs), and effect the necessary corrections to address the identified disparities, mispostings, and erroneous recordings amounting to P17.044 million.**
- 2.41. Management of CAAP-HO committed to conducting a comprehensive examination and periodic reconciliation to identify factors contributing to variances between the General Ledger (GL) and SL balances. This process would include a detailed review of transactions and accounts to detect discrepancies. If warranted, they would prepare necessary adjusting entries to ensure alignment and accuracy between the ledgers.
- 2.42. Further, the Accounting Division committed to carrying out an in-depth review of realized foreign exchange gains and losses arising from the collection of receivables denominated in foreign currency. This would focus on identifying and correcting erroneous entries. Upon identifying discrepancies, they would prepare and implement the necessary adjustments to ensure the accuracy of financial records.
- 2.43. Management of AC IV acknowledged the variance between the books and committed to submitting updated schedules and corrected balances upon completion of the reconciliation process.
- 2.44. Management of AC V agreed to comply with the recommendations.
- 2.45. Management of AC VII also committed to continuously conducting an in-depth periodic reconciliation of the variance between the books to present an accurate valuation of the AR/OLR accounts.
- 2.46. Management of AC VIII informed that reconciliation had progressed significantly, and they had already identified several key discrepancies that require further investigation. They also committed to submitting revised Aging Reports to the Audit Team.
- 2.47. Management of AC IX commented that they continued reconciling the variance between the GL and SL and agreed to comply with the recommendations. They committed to prioritizing reconciliation, aiming to complete it within the year for more accurate financial statements.

2.48. Management of AC XII acknowledged that the reconciliation process was tedious but committed to minimizing discrepancies until full reconciliation was achieved.

**d) Variance of P393.857 million between the accounting records and the amount confirmed by 47 Air Operators and the unconfirmed balance of P2.428 billion in CAAP-HO**

2.49. 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.

2.50. Confirmation letters were sent out to 151 selected debtors in the CAAP-HO and the results are as follows:

**Table 8. Summary of Results of Confirmation**

<b>Particulars</b>	<b>No. of Debtors</b>	<b>SL Balance as of December 31, 2024</b>	<b>Per Confirmation</b>	<b>Variance/ Unconfirmed Balance</b>
SL balance > amount confirmed	39	P 763,074,313.79	P 371,843,769.74	P 391,230,544.05
SL balance < amount confirmed	7	51,882,613.61	54,508,966.57	2,626,352.96
SL balance = amount confirmed	1	2,377,262.00	2,377,262.00	-
With confirmation	<b>47</b>	<b>817,334,189.40</b>	<b>428,729,998.31</b>	<b>393,856,897.01</b>
Without confirmation	104	2,428,494,033.49	No Reply	<b>2,428,494,033.49</b>
	<b>151</b>	<b>P 3,245,828,222.89</b>		

2.51. Analysis showed an aggregate amount of P2.428 billion in receivable balances that clients did not confirm. Out of the 151 selected debtors, only 47 replied, but the results showed a total variance of P393.857 million between the accounting records and the amount confirmed.

2.52. The material amount of variance between the SL balances and confirmed amounts was mainly due to unidentified or unposted collections. These payments were not promptly recorded in the SL pending identification of payer/remitter details and billing references.

2.53. Some clients deposited, remitted, or transferred payments directly to CAAP's bank accounts without notifying CAAP or providing the necessary payment details, despite clear instructions. As of December 31, 2024, P269.835 million unidentified remittances remained lodged under the Undistributed Collections account.

2.54. Additionally, most confirmed balances pertained only to records of the Air Operators' current ground handlers, even though balances from past handlers accumulated over time due to frequent change. In CY 2023, the AD raised various concerns and issues to the Regulatory Standards Department (RSD) of the Flight Standards Inspectorate Service (FSIS), highlighting confusion

over invoice routing, responsibility for payments, and refund requests for advance payments by ground handlers.

2.55. While Management claimed that regulating ground handlers was beyond CAAP's mandate, the Audit Team recommended enforcing the collection of outstanding balances directly from Air Operators, who ultimately bore responsibility. In doing so, it would streamline the collection process, reduce delays caused by the involvement of multiple ground handlers, clarify the responsibilities of each party, enhance transparency and accountability, and strengthen CAAP's legal position in recovering overdue accounts.

**2.56. We reiterated our previous years' recommendations, with modifications, and Management agreed to instruct the Accounting Division in CAAP-HO to:**

**a. Develop a concrete action plan to be integrated into the existing billing and collection policy, aimed at addressing the persistent challenge of reconciling and collecting outstanding receivables from prior years, by directly enforcing collections from the Air Operators; and**

**b. Designate dedicated personnel to coordinate directly with the Air Operators for the reconciliation of balances between CAAP and the clients' records; record the necessary adjustments in the books of accounts, if warranted, and provide the Audit Team with the reconciliation results.**

2.57. Management stated that, to address the challenge of reconciling and collecting outstanding receivables from prior years, the AD planned to propose a policy enforcing collections with a 15-day dispute period after receipt of billing, after which balances would be considered final. This aimed to streamline the reconciliation process, enhance collection efficiency, and ensure accountability.

2.58. The CAAP-HO AD also committed to assigning dedicated personnel to coordinate with the clients, resolve discrepancies, and make necessary adjustments in the books of accounts.

2.59. The Audit Team emphasized the need for the Accounting Division to issue its own balance confirmation letters and adopt alternative strategies to strengthen receivable management and ensure accurate account reconciliation.

**e) *Existence of negative/abnormal balances in Area Centers (ACs) VIII, XI, and XII amounting to P16.221 million***

2.60. During the CY 2024 audit, the AC Audit Teams noted the following transactions in the books of accounts of their respective auditees:

a. In AC VIII, the negative balances of P12.099 million decreased the balance of the AR and had been outstanding in the aging schedule

from one year to 10 years. Inquiry revealed that these negative balances were the result of unposted billings, which at the time of collection were credited to the AR account;

- b. In AC XI, Billing Unit Head claimed that the negative balances of P3.425 million could be attributed to ground handling payments made directly to the CAAP-HO, while the corresponding receivables were not recorded in the AC's books of accounts; and
  - c. In AC XII, the negative balances amounting to P0.697 million resulted from errors in recording or misposting of payments made by 108 airline companies and concessionaires, possible overpayments or excess payments, and discrepancies between the ledger and supporting documentation.
- 2.61. The negative/abnormal balances erroneously reduced and misstated the total receivables amount, affecting the faithful representation of these accounts in the financial statements.
- 2.62. As a result of prior years' audit findings at CAAP-HO, the AD recorded the clients' overpayments and/or advance payments under the Other Unearned/Revenue account, while the unidentified remittances were lodged in the Undistributed Collections account.
- 2.63. We recommended that Management direct the Accounting Division/Units in ACs VIII, XI and XII to:**
- a. Conduct an in-depth investigation to identify the root cause/s of abnormal/negative receivable balances, with a view to resolving underlying issues and preventing recurrence;**
  - b. Coordinate with CAAP-HO to prepare the necessary adjusting entries for the proper reclassification of negative/abnormal balances into their proper accounts; and**
- 2.64. **For AC XI:**
- c. Instruct the Accounting and Billing Units to secure all supporting documents related to ground handling payments made directly to CAAP Head Office and to promptly record the necessary adjusting entries to recognize the corresponding receivables in the books and submit copies of the JEVs to the Office of the Auditor for review and documentation.**
- 2.65. In AC VIII, during the exit conference, Management presented adjustments of P9.581 million, which reduced the negative balances from P12.099 million to P2.518 million. Management committed to completing the reconciliation.
- 2.66. In AC XI, Management stated that efforts to resolve negative balances and reconcile outstanding accounts would continue through ongoing monitoring and recording of necessary adjustments.

- 2.67. For AC XII, Management committed to validating the presence of negative accounts.
- 3. Lack of proper monitoring of input taxes and the non-filing of amended VAT returns to correctly reflect them in CAAP's quarterly VAT returns resulted in forgone tax credits of P340.092 million and the overstatement of the Input Tax account by P402.719 million; thereby, affecting the faithful representation of these accounts in the financial statements.**
- 3.1. This is a reiteration of our observations from CYs 2022 to 2023 AARs, with updated information.
- 3.2. Paragraph 17 of PAS 1 on Presentation of Financial Statements states that information, to achieve fair presentation, should be relevant, reliable, comparable and understandable.
- 3.3. Under the National Internal Revenue Code (NIRC), Value-added Tax (VAT) is a consumption tax levied on the sale or lease of goods and services in the Philippines and on importation. As an indirect tax, it may be passed on to the buyer, transferee or lessee.
- 3.4. Input taxes pertain to VAT on goods and services procured by CAAP, while output taxes refer to VAT on the services it rendered. Input taxes are offset against output taxes, resulting in either VAT payable if output taxes exceed input taxes, or Creditable Input Tax (CIT), if vice versa.
- 3.5. Meanwhile, Section 204 (C) of the NIRC, as amended, allows a tax refund or credit for erroneous payments, provided a claim is filed within two years.
- 3.6. Moreover, Revenue Regulations Nos. 3-2024 and 7-2024, both dated March 22, 2024, implement the amendments introduced by Republic Act (RA) No. 11976 or the "Ease of Paying Taxes Act" (EOPT), shifted input tax recognition from cash to accrual basis, allowing input taxes to be offset once the purchase of services accrues. As such, no input tax should remain in the account, except those recorded in Accounts Payable before the EOPT's issuance, which must be monitored until offset. Therefore, the year-end Input Tax balance should only reflect unpaid goods and services procured prior to these regulations
- 3.7. As of December 31, 2024, the balance of the Input Tax account amounted to P403.464 million. This balance, had it been appropriately supported with documentation, would have been offset against output tax for the period in which it was accrued/paid by filing an amended VAT return to allow the recognition of CIT.
- 3.8. However, input taxes on unpaid goods and services recorded in the Accounts Payable account prior to the issuance of the EOPT amounted to only P0.745 million, resulting in the overstatement in the Input Tax account by P402.719 million. Details are shown in Table 9.

**Table 9. Summary of Input Tax Account as of December 2024**

Balance in	Input Tax
CY 2020 to 2022	P 196,525,703
CY 2023	40,913,858
CY 2024	166,024,390
Balance, December 31, 2024	403,463,951
Input Tax on unpaid payables before the effectivity of the EOPT recorded in Accounts Payable	745,325
Overstatement	<b>P 402,718,626</b>

- 3.9. Audit disclosed that CAAP's Accounting Division had not filed any claims for credit or amended VAT returns for accumulated input taxes of P356.703 million from CYs 2020 to 2024. Of this amount, P196.526 million pertaining to CYs 2020 to 2022 could no longer be claimed due to the two-year prescriptive period under Section 204 of the NIRC. In relation to this, CAAP is at risk of losing potential tax credits amounting to P206.193 million (P40,913,858.25 + P166,024,390.17 - P745,325.01) for CYs 2023 to 2024 unless claims for credit or amended VAT returns were filed within the prescribed period.
- 3.10. Meanwhile, CAAP derecognized its CIT amounting to P143.566 million by offsetting the same against expenses and assets. The Accounting Division claimed that the amount did not represent a valid tax credit based on an assessment conducted by the BIR. However, no supporting documents were presented to the Audit Team to support such a claim despite several attempts to request the said documents.
- 3.11. Moreover, we noted that CAAP has not taken any action to rectify the erroneous filing of input taxes by filing an amended VAT return. In CY 2024, the Accounting Division excluded input taxes amounting to P22.627 million from its VAT returns due to the untimely submission of invoices by end-users. Nonetheless, the Accounting Division did not file for an amended VAT return to correctly reflect the creditable input taxes of CAAP for the period, citing concerns that doing so might trigger another tax assessment from the BIR.
- 3.12. We also observed a lack of adequate control and monitoring mechanisms within the Accounting Division to ensure that all purchases were timely reported within the appropriate period. At present, the Accounting Division does not maintain a detailed schedule that links the specific purchases to the input taxes recorded in its books. Such a schedule is necessary not only to substantiate the accuracy of the *Input Tax* account balance, but also to facilitate the preparation of the Summary List of Sales and Purchases, which is a required attachment to the VAT returns.
- 3.13. We reminded Management that the balances in the Input Tax and Creditable Input Tax accounts represent amounts that CAAP might utilize to offset its VAT obligations. The absence of controls or any form of monitoring activities in recording input taxes, the non-filing of claims for credit or amended VAT returns and the derecognition of the CIT balance without valid supporting documents ultimately resulted in forgone tax credits amounting to P340.092 million. This amount comprised the P143.566 million balance of the CIT account and the P196.526 million recorded in the Input Tax account recorded since CY 2022.

This issue led to a material overstatement of the *Input Tax* account by P196.526 million which affected the faithful representation of the *Input Tax* and *Creditable Input Tax* accounts in the financial statements.

- 3.14. While we acknowledged that a BIR tax assessment might add to the already demanding workload of the Accounting Division, such an assessment is a necessary part of government oversight to ensure entities' compliance with tax regulations.
  - 3.15. **We reiterated our previous years' recommendations, with modifications, and Management agreed to require the Chief Accountant to:**
    - a. **Prepare and maintain a detailed listing or schedule of all input taxes to support the balance of the account and to ensure its proper monitoring;**
    - b. **Reconcile the balance in the Input Tax account with the input tax recorded in the Accounts Payable account and prepare the necessary Journal Entry Voucher to rectify any discrepancies and to reflect the correct balance of the account;**
    - c. **Provide adequate supporting documents to support the reversal of CIT balance for the evaluation of the Audit Team;**
    - d. **Require the Chief Accountant to immediately file an amended Value-added Tax return for input taxes not filed within the appropriate period and, henceforth, require end-users to submit invoices to the Accounting Division in a timely manner to ensure all input taxes on purchases are duly captured and appropriately reflected in every Value-added Tax return.**
  - 3.16. **As this issue has persisted for the past three years, resulting in forgone tax credits and disbursements that could have been offset, we recommended that the Office of the DDGA review the Chief Accountant's explanation, assess the situation and consider implementing appropriate measures to enhance the effective use of government resources.**
4. **The Inventories account with a carrying value of P143.710 million, was not faithfully represented in the financial statements of CAAP due to a P98.126 million variance between the accounting records and the result of the physical count, and the inaccurate valuation of inventory exceeding its net realizable value, contrary to PAS 1 and 2.**
    - 4.1. This is a reiteration of our observations from CYs 2018 to 2023 Annual Audit Reports (AARs), with updated information.
    - 4.2. Philippine Accounting Standard (PAS) 1 requires financial statements to fairly present an entity's financial position, performance, and cash flows through faithful representation of transactions and events, in line with the Framework's definitions and recognition criteria.

- 4.3. Paragraph 28 of PAS 2 requires that inventories should be written down to its net realizable value. Further, Paragraph 6 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.
- 4.4. Meanwhile, COA Circular No. 2018-003 mandates the use of Internal Control Standards for the Philippine Public Sector (ICSPPS). It requires regular reconciliation of financial records with appropriate documents and the establishment of physical controls to safeguard assets. The guideline emphasizes the importance of periodically counting these assets and comparing them with control records.
- 4.5. Various records are essential for safeguarding and accounting for inventories. The Report on the Physical Count of Inventories (RPCI) and the Report on the Physical Count of Semi-Expendable Property (RPCSP) document physical count results and support inventory existence assertions. Meanwhile, Stock Cards (SCs), Semi-Expendable Property Cards (SPCs), Supplies Ledger Cards (SLCs), and Semi-Expendable Property Ledger Cards (SPLCs) are maintained by the Supply and Accounting Divisions to track supply receipts and issuances. Physical count results from the RPCI and RPCSP must be reconciled with these records, and any discrepancies promptly investigated to ensure accurate inventory reporting in compliance with PAS 1.
- 4.6. As of December 31, 2024, CAAP's Inventory accounts had an aggregate carrying amount of P143.710 million. However, the physical count of inventories in CAAP HO and ACs V, VI, and XII showed a variance of P98.126 million between the General Ledger (GL) and RPCI/RPCSP. Details are shown in Table 10.

**Table 10. Variance Between GL and RPCI/RPCSP  
as of December 31, 2024**

<b>Location</b>	<b>GL</b>	<b>RPCI/RPCSP</b>	<b>Absolute Variance</b>
CAAP-HO	P 52,280,109	P 19,959,028	P 37,866,915
AC V	47,287,879	2,519,605	44,768,274
AC VI	6,991,528	0	6,991,528
AC XII	3,341,734	11,840,832	8,499,098
			<b>P 98,125,815</b>

**(1) Variance between accounting records and the result of the physical count**

- 4.7. Audit disclosed various deficiencies that contributed to the variance between the accounting records and the result of the physical count, as follows:
- a. Control records were not timely and properly maintained by both the Supply and Accounting Divisions, making it difficult to reconcile accounting records with the result of the physical count**
- 4.7.a.1. Audit revealed that the Inventory Committee in CAAP-HO, ACs V and XII did not reconcile the physical count results with control records (SCs, SPCs, SLCs, SPLCs), citing the

unavailability of these documents. These records are essential for verifying the accuracy of financial reporting and maintaining physical control over inventories. The lack of regular updates pointed to gaps in internal controls over inventory management.

- 4.7.a.2. Meanwhile, in AC VI, non-reconciliation between the GL and the RPCI was due to the absence of a dedicated Inventory Committee.
- 4.7.a.3. Moreover, in CAAP-HO, despite significant variances between recorded inventory balances and physical count results, the RPCI and RPCSP showed little to no variances. The Inventory Committee used the physical count figures for both the “Balance per Card” and “On Hand per Count” columns, citing the lack of updated SLCs and SPLCs. As a result, the reports appeared fully reconciled, although the underlying records were not available for verification.
- 4.7.a.4. The limited staffing and heavy workloads at the Supply Division attributed to delays in updating inventory records, as the Division is responsible for managing supplies, materials, and other CAAP’s assets, while also assisting in the one-time inventory cleansing. Similarly, the Accounting Division admitted that SLCs and SPLCs were not regularly updated, particularly during high-volume issuances.
- 4.7.a.5. We reiterated the importance of timely updating of SCs, SPCs, SLCs, and SPLCs and the regular reconciliation of these records with the result of the physical count to ensure accurate inventory reporting. Delays in reconciliation could lead to undetected discrepancies, increasing the risk of losses, record misstatements, and potential misuse or misappropriation of government property. Strengthening these controls would promote accountability and transparency.

***b. Delay in the recording of inventories due to a gap in policy and procedures over the recording of purchases***

- 4.7.b.1. The timely recording of transactions in the books of accounts is a fundamental aspect of sound financial reporting as encapsulated in PAS 1, which requires the faithful representation of the effects of transactions, other events, and conditions in the financial statements.
- 4.7.b.2. We noted that the Accounting Division of CAAP recorded inventories only at the time of payment, regardless of when the goods were delivered and accepted. This practice caused a timing difference, as goods received and issued were not recorded in the books until the payment was

processed. It also delayed updates to SLCs and SPLCs, with some RSMLs and RSPLs for a particular inventory preceding the recording of inventories in the books. It was further observed that the Accounting Division received delivery receipts and Inspection and Acceptance Reports (IAR) only when end-users routed disbursement vouchers for payment processing.

- 4.7.b.3. In addition, delays in the formal acceptance of goods contributed to the late recording of inventories. While items were inspected upon delivery, acceptance occurred days or weeks later, causing discrepancies between the books and physical count. As of year-end, inventories worth P3.321 million were included in the report but not recorded, pending formal acceptance. Details of these inventories are shown in Table 11.

**Table 11. Schedule of Inventories Included in the Inventory Report Despite the Lack of Acceptance**

<b>Inventory Accounts</b>	<b>Amount</b>
Accountable Forms, Plates and Stickers Inventory	P 955,434
Semi-Expendable Communication Equipment	1,025,125
Semi-Expendable Information and Communication Technology Equipment	292,901
Semi-Expendable Other Machinery and Equipment	1,047,321
	<b>P 3,320,781</b>

- 4.7.b.4. Personnel from the Supply Division explained that although the delivery receipts had been signed and the items inspected, formal acceptance was still pending. As such, the items should have been excluded from the inventory count. However, their inclusion contributed to the observed variance.
- 4.7.b.5. In ACs XI and XII, the Audit Teams observed unrecorded inventories amounting to P26.283 million and P10.043 million, respectively. These were not recorded in the books of accounts due to insufficient supporting documents and the Accounting Division's oversight in recording the deliveries.
- 4.7.b.6. Delays and/or non-recording of purchases could lead to several issues, including misstated inventory balances and inaccurate financial reporting. This issue highlighted a gap in CAAP's processes. Review of the Administrative and Finance Service Procedure Manual of CAAP-HO revealed the absence of clear guidelines on the timeline for conducting the inspection and acceptance of goods.

**c. Inaccurate and non-recording of the utilization of inventories**

- 4.7.c.1. Accurate recording of inventory utilization is essential for reliable balances and accountability. However, the audit disclosed several discrepancies and omissions in the records.
- 4.7.c.2. The Report of Supplies and Materials Issued (RSMI) and Report of Semi-Expendable Property Issued (RSPI), prepared by the Supply Division and supported by approved RISs and ICSs for semi-expendable items, served as the Accounting Division's basis for derecognizing inventory and recording supplies expenses.
- 4.7.c.3. Audit disclosed that in CAAP-HO, the reported issuances of office supplies in the RSMI did not consistently match the corresponding RISs. Details are shown in Table 12.

**Table 12. RSMI vs RIS for Issuances of Office Supplies Inventory**

Month	Per RSMI	Per RIS	Absolute Variance
January	P 46,996	P 61,065	P 14,069
February	373,765	368,099	5,666
March	46,826	53,843	7,017
April	56,543	54,798	1,745
May	80,179	80,056	123
June	8,406	10,632	2,226
September	289,101	301,931	12,830
October	154,993	134,185	20,807
November	155,064	151,046	4,019
December	222,802	212,126	10,676
			<b>P 79,178</b>

- 4.7.c.4. Furthermore, we found unrecorded inventory issuances in CY 2024 amounting to P0.502 million in CAAP-HO and AC XII, as shown in Table 13.

**Table 13. Summary of the Unrecorded Issuances**

Location	Account	Nature of items	Amount
CAAP-HO	Semi-Expendable Information and Communication Technology Equipment	2 units of printer for COA-CAAP	P 19,942
	Other Supplies and Materials Inventory	Alison transmission main filter kits for Oshkosh fire trucks	29,808
		YMCKK ribbons & overlay-re-transfer films for licensing & certification dept.	170,479
AC XII	Other Supplies and Materials Inventory	Engine oils, fuel filters, brake fluids, grease, and batteries for the preventive maintenance of two (2) fire trucks at Siargao Airport	281,420
			<b>P 501,649</b>

- 4.7.c.5. The Supply Division in CAAP-HO did not prepare and/or submit the required RSMLs/RSPs for these issuances resulting in the overstatement of Supplies Inventories and understatement of Supplies Expenses.
- 4.7.c.6. The Supply and Accounting Divisions in CAAP-HO explained that the large volume of items issued to numerous offices each month, coupled with the manual consolidation of these transactions, increased the risk of human error.

**d. Inaccuracies in the preparation of RPCI and RPCSP**

- 4.7.d.1. Accurate physical counts and correct preparation of RPCI and RPCSP reports are essential for validating inventory records and preventing loss or misstatement.
- 4.7.d.2. Audit noted misclassification of various inventory items amounting to P427,513 in the RPCI/RPCSP, contributing to the variance between records and physical count. Details are shown in Table 14.

**Table 14. Summary of Misclassification in the RPCI/RPCSP**

<b>Account reflected</b>	<b>Should be</b>	<b>Amount</b>
Semi-Expendable Information and Communication Technology Equipment	Semi-Expendable Office Equipment	P 290,625
	Other Supplies and Materials Inventory	79,688
Semi-Expendable Communication Equipment	Other Supplies and Materials Inventory	57,200
		<b>P 427,513</b>

- 4.7.d.3. In addition, Other Supplies and Materials Inventories (OSMI) amounting to P4.091 million in CAAP-HO and AC XII were not included in the count and in the RPCI. The Inventory Committee in CAAP-HO explained that they were unaware of the correct account classification. This was concerning as the inventory committee was composed of personnel from both the Supply and Accounting Divisions.
- 4.7.d.4. The lack of a defined policy for conducting inventory counts and preparing the corresponding reports likely contributed to the identified inaccuracies. Establishing standard procedures would help ensure consistent practices during physical counts and proper preparation of RPCI and RPCSP.

**e. CAAP did not conduct physical count for all its inventory items**

- 4.7.e.1. The ICSPPS emphasized the importance of conducting a physical count.
- 4.7.e.2. Audit disclosed that in AC VI, CAAP did not count its Accountable Forms, Plates, and Stickers Inventory in Kalibo International Airport and Iloilo International Airport. Similarly, in AC XII, CAAP did not count all inventories in Surigao Airport.
- 4.7.e.3. The Supply Officers in both ACs VI and XII raised that they were not aware of the requirement to conduct physical count in the inventories they were safeguarding.

**f. CAAP had no clear policy to account for shortage/overage of its Fuel, Oils and Lubricants Inventory (FOLI)**

- 4.7.f.1. Audit of the utilization of fuel and lube oil revealed shortages and overages in diesel and lube oil stocks for generators maintained by CAAP. Details are shown in Table 15.

**Table 15. Summary of Variances in FOLI Utilization by Generator Sets**

Location	Fuel or Lube Oil	Ending balances per GORFR* (in liters)	RPCI (in liters)	(Shortage)/Overage (in liters)
NAIA 1 Power Plant Station	Fuel	3,605.00	3,467.60	(137.40)
Manila Transmitter Station	Fuel	3,623.00	3,524.00	(99)
Tagaytay Radar Remote Communication Air-to-Ground Receiver	Fuel	2,153.40	2,154.19	0.79
Tagaytay Radar ANF Radar Power Station	Fuel	1,531.00	1,531.60	0.60
NAIA 2 Power Plant Station	Lube Oil	142.00	126.00	(16)
Manila Tower Power Plant Station	Lube Oil	51.00	47.00	(4)
CAAP Main Power Plant Station	Lube Oil	283.00	288.00	5

\*GORFR stands for Generators Operation Record and Fuel Report.

- 4.7.f.2. The Air Navigation Service (ANS) attributed the discrepancies at NAIA 1 Power Plant, Tagaytay Radar Remote Communication Air-to-Ground Receiver, and Tagaytay Radar ANF Radar Power Station to dipstick measurement errors, citing possible improper dipping or failure to reach the tank's deepest part.
- 4.7.f.3. For the 99-liter variance at the Manila Transmitter Station, ANS explained that a one-day tank was inadvertently missed during inventory. A committee member confirmed this but noted no recount was conducted.
- 4.7.f.4. No justification was provided for the variances noted in the lube oil. The lack of explanation from the ANS would have

prompted further inquiry to ensure accountability over these assets.

- 4.7.f.5. Given the inherent limitations of using dipsticks for fuel measurement, it is imperative for CAAP to establish a clear policy and procedure on fuel inventory management. This policy should define acceptable variance thresholds, taking into account the challenges associated with accurately measuring fuel levels in storage tanks using dipsticks.
- 4.7.f.6. This issue highlighted the need for a defined and consistent approach to managing CAAP's Fuel, Oils and Lubricants Inventory.

**g. *Misstatements in various Inventory accounts due to the erroneous recording of transactions***

- 4.7.g.1. Audit of the deliveries and issuances of various inventories, as recorded in the GL, disclosed several erroneous journal entries that contributed to the variance, to wit:
- The payment for preventive maintenance to several service vehicles amounting to P119,598, was erroneously recorded under Fuel, Oil, and Lubricants Inventory instead of Repair and Maintenance - Transportation Expense; and
  - Input taxes amounting to P62,235 were not deducted in the recorded inventory, resulting in the overstatement of the Semi-Expendable Office Equipment account.
- 4.7.g.2. The erroneous recording of transactions indicated gaps in the review and approval process of JEVs. Notably, these errors could have been easily detected through timely reconciliation of records following the physical count.

**(2) *Inaccurate valuation of inventories exceeding net realizable value***

- 4.8. The RPCI and the RPCSP are official forms used to document the results of the physical count of inventory items. These reports support management's assertion of the existence and condition of inventories as of a specific reporting date.
- 4.9. As of year-end, the Inventory accounts had an aggregate balance of P159.200 million, with an accumulated impairment of P15.490 million, resulting in a carrying amount of P143.710 million. However, the physical inventory count indicated the cost of CAAP's inventories on hand was only P54.083 million, leaving a discrepancy of P89.627 million, which remained unreconciled at year-end. Considering that the carrying value of inventory is significantly lower than the result of the physical count, this indicated that the net realizable value of the inventories was substantially lower than the recorded balance per books,

contrary to PAS 2 which requires that inventories be measured at the lower of cost and net realizable value.

4.10. Considering the foregoing issues, there was an urgent need for CAAP to reconcile its inventory records to accurately determine the net realizable value and recognize the corresponding impairment loss. However, the write-down of inventories to their net realizable value did not relieve property custodians from their responsibility to safeguard CAAP's assets. Any indication of loss, misuse, or misappropriation should have been investigated and addressed in accordance with applicable laws, rules, and regulations.

4.11. **We recommended, and Management agreed to:**

- a. **Direct both the Supply and Accounting Divisions of CAAP-HO, ACs V, and XII, to prioritize the meticulous and timely maintenance of the SCs, SPCs, SLCs, and SPLCs. In addition, in CAAP-HO, submit to the Director General a plan of action detailing the personnel who would conduct the updating of their respective control records, along with the frequency and timelines involved in their maintenance to ensure proper monitoring of the corrective action;**
- b. **Designate an Inventory Committee in AC VI for the physical count of inventories, to conduct the counting of ALL inventories on stock and prepare the RPCI;**
- c. **Direct the Inventory Committees in all ACs to:**
  - i. **Regularly reconcile the result of the physical count with the control records;**
  - ii. **Ensure the prompt and accurate reporting of shortages and overages for Management to immediately investigate the cause of such shortages/overages and submit a copy of the investigation report to the Audit Team once available;**
- d. **Instruct the Chief Accountant in CAAP-HO, ACs XI, and XII to record inventories in the books of accounts upon delivery and acceptance of goods by CAAP;**
- e. **Instruct the Chief, Supply Division of CAAP-HO to:**
  - i. **Immediately submit the Delivery Receipts and IAR, and other supporting documents to the Accounting Division as soon as available to facilitate the timely recording of deliveries;**
  - ii. **Conduct a recount of fuel in all tanks maintained by CAAP to verify the FOLI balance, investigate any resulting variances to determine accountability, and furnish this Office a copy of the investigation report;**

- f. For CAAP-HO and AC XII to:
    - i. Ensure the accurate and regular preparation and submission of RSPIs and RSMIs, supported by duly accomplished Requisition and Issue Slips and ICSs for issuances of semi-expendable properties; and
    - ii. Immediately submit to the Accounting Division the necessary RSMI/RSPI to record the P0.502 million inventories already issued to end-users;
  - g. Review and revise the AFS Procedure Manual to include specific timelines for the inspection and acceptance of delivered goods to avoid unnecessary delays;
  - h. Develop and implement a comprehensive policy governing the conduct and reporting of physical inventory counts, detailing the responsibilities of the inventory committee, the procedures to be undertaken during the count, and the subsequent reconciliation of records, specifying the reportorial requirements and the standards for documentation;
  - i. Establish a clear policy on the proper accounting and treatment of inventory overages and shortages, specifically for fuel identified during physical counts; and
  - j. Direct the Chief Accountant to:
    - i. Immediately prepare the necessary adjusting entries to correct the erroneous entries recorded in the books of accounts;
    - ii. Review meticulously the JEVs to prevent the erroneous recording of transactions; and
    - iii. Recognize impairment losses by writing down inventories to their net realizable value in accordance with PAS 2, once the accuracy of the RPCI and RPCSP has been ascertained.
5. The completeness of the *Cash and Cash Equivalents* account balance of P11.081 billion as of December 31, 2024, could not be ascertained due to a variance of P16.765 million between GL and SL balances, unrecorded bank reconciling items in the total amount of P13.962 million, and delayed or non-preparation of Bank Reconciliation Statements (BRS).
- 5.1. This is a reiteration of our observations from CYs 2021 to 2023 Annual Audit Reports (AARs), with updated information.
  - 5.2. Philippine Accounting Standards 1 mandates that financial statements accurately represent an entity's financial position, performance, and cash

flows, adhering to the Conceptual Framework for Financial Reporting's definitions and recognition criteria for assets, liabilities, income, and expenses.

**a) Variance of 16.765 million between GL and SL balances**

- 5.3. Section 114 of Presidential Decree No. 1445, also known as The Government Auditing Code of the Philippines, requires a double-entry system with a general ledger for recording all financial transactions, as well as the maintenance of subsidiary records.
- 5.4. The general ledger (GL) is a book of final entries, while the subsidiary ledger (SL) is a detailed record of the balance in the controlling account. The GL aids in maintaining accurate records and monitoring transactions. The SL's balances are periodically reconciled with the control account, requiring preparation and regular updates. As of December 31, 2024, a variance of P16.765 million was noted between the GL and SL balances.

**Table 16. Variance Between GL and SL Balances**

Account Title	General Ledger	Subsidiary Ledger	Variance
HO - Cash-Collecting Officer	P 14,735,225	P 3,142,375	P 11,592,850
AC IV - Cash in Bank- Local Currency, Current Account	52,675,337	47,875,386	4,799,951
HO - Cash in Bank- Local Currency, Current Account	5,381,446,204	5,381,120,487	325,717
HO - Petty Cash	907,743	865,159	42,584
HO - Cash in Bank- Local Currency, Savings Account	535,660	539,494	3,834
			<b>P 16,764,936</b>

- 5.5. In the analysis of accounts and review of documents, we determined some of the factors that caused the variance as follows:
- a. Variances between the beginning balances of the GL and SLs;
  - b. Various GL entries not matched with corresponding SL entries or not posted to SLs; and
  - c. Some SLs were not maintained.
- 5.6. In addition, AC IV cited that the lack of personnel had hindered their ability to conduct thorough account analyses, report preparation, and reconciliations.

**b) Unrecorded bank reconciling items in the total amount of P13.962 million**

- 5.7. The validity and accuracy of the balance of the Cash and Cash Equivalents account could not be ascertained due to various reconciling items, in the total amount of P13.962 million that have remained unadjusted and unrecorded in the books of account.
- 5.8. Review of documents submitted to the Audit Team disclosed that the Bank Reconciliation Statements (BRSs) were not complete, proper, and updated. Items such as book errors, bank errors, stale and outstanding checks, which

dated back to as early as CY 2009, were still presented as reconciling items in the BRS and remained unadjusted.

**Table 17. Unrecorded Reconciling Items**

<b>Account</b>	<b>Area Center</b>	<b>Unrecorded Reconciling Items (Absolute Amount)</b>	<b>Remarks</b>
A	IX	P 4,205,495	
B	IX	3,226,178	No BRS
C	IX	2,919,260	
D	IX	1,696,142	
E	IX	894,497	
F	IX	724,103	
G	V	177,664	
H	IX	84,201	No BRS
I	IX	31,326	No BRS, Closed Account, Negative Balance
J	IX	2,795	No BRS, Closed Account, Negative Balance
<b>P 13,961,661</b>			

5.9. The Accountants explained that some reconciling items remained unrecorded due to time constraints during the preparation of the financial statements, while others could not be adjusted due to insufficient or missing supporting documents.

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

5.10. 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 immediately after the BRSs were made and after those items were properly analyzed and verified. Likewise, Section 74 of PD No. 1445 mandates monthly reports from depositories to the agency head on the condition of the agency's account status. The head of the agency must ensure reconciliation between the reported balance and the agency's books.

5.11. The BRS is an accounting tool used to detect errors in both agency and bank records by reconciling the cash account per book with the bank statement. Reconciling items, such as bank charges and interest, are properly documented and adjusted in the books to reflect the correct cash balance. Accurate cash records are essential, as cash is the most liquid asset.

5.12. In the analysis of the submitted BRSs, we noted an average delay of three months in their preparation. Moreover, six bank accounts, including the Authority's main depository account, had no corresponding BRS. The Finance Department attributed these lapses to limited personnel resources.

5.13. The absence of Subsidiary Ledgers and BRS for major depository accounts indicated inadequate cash management controls. These deficiencies increased the risk of misstatement, misappropriation, and fraud. Continued non-compliance with PAS 1, PD No. 1445, and COA Circular No. 92-125A underscored the need for immediate and sustained corrective actions to

strengthen the overall control environment and ensure faithful financial reporting.

- 5.14. We reiterated our prior years' recommendations, with modifications, that Management direct:**
- 5.15. The HO Accounting Division:**
- a. Reconcile the variances noted between the GL and SL balances, effect the necessary adjustments/correcting entries/postings, and submit the updated GLs and SLs to the Audit Team; and**
  - b. Maintain a Schedule for SL Balances periodically to compare with the GL balance for early detection of any variances.**
- 5.16. The AC V and AC IX Accounting, to record the necessary adjusting entries to take up the reconciling items;**
- 5.17. The HO and AC IX Accounting Division, to strictly adhere to COA Circular No. 92-125A and PD No. 1445, prioritize the immediate preparation of BRSs and submit them to the Audit Team;**
- 5.18. The HO and ACs IV, V, and IX Management to:**
- a. Review staffing and workloads and consider reallocating resources and streamlining processes for efficiency.**
  - b. Establish and implement written policies and procedures on Cash Management and Reconciliation to ensure:**
    - Timely reconciliation of GL and SL balances, with defined responsibilities, frequency (at least monthly), and documentation requirements;**
    - The preparation of Bank Reconciliation Statements for all bank accounts on a timely basis (preferably monthly), including clear timelines for preparation, review, and approval; and**
    - Prompt investigation and recording of all reconciling items identified in the BRS.**
- 5.19. CAAP- HO Management informed that BRSs had been prepared for 19 of 20 bank accounts, with the remaining BRS expected by July 2025.**
- 5.20. Management committed to establishing and implementing comprehensive written policies on cash management and reconciliation. The AD would review reconciliation procedures, set strict timelines for BRS preparation and review, assign dedicated personnel, and enhance efforts to ensure the timely and regular updating of BRSs. In addition, the AD-HO would establish a periodic**

review schedule to monitor and reconcile SLs against the GL for the timely detection and correction of discrepancies.

- 5.21. They also mentioned that they would soon implement an Enterprise Resource Planning (ERP) System that would facilitate automated reconciliation.
  - 5.22. AC IV committed to implementing the recommendation by hiring additional job order personnel to ensure the timely reconciliation of records and the reconstruction of beginning balances using available documents.
  - 5.23. AC V mentioned that the reconciliation was ongoing.
  - 5.24. In AC IX, Management had already identified the necessary adjustments and had yet to record them in the books.
- 6. The balance of the *Receivables – Disallowances/Charges* account as of December 31, 2024 amounting to P167.912 million could not be relied upon due to a variance of P26.255 million between the balances of the General Ledger (GL) and the Subsidiary Ledgers (SLs) and the non-recording of settlement amounting to P18.252 million.**

- 6.1. This is a reiteration of our observations from CYs 2022 to 2023 Annual Audit Reports (AARs), with updated information.
- 6.2. Philippine Accounting Standard (PAS) 1 Presentation of Financial Statements provides that the Financial Statements of an entity shall be presented fairly.
- 6.3. As of December 31, 2024, the audit of the Receivables – Disallowances/Charges account disclosed a variance amounting to P26.255 million between the GL and SL balances as shown in Table 18.

**Table 18. Comparison of General Ledger and Subsidiary Ledger**

AC/HO	GL	SL	Variance
HO	P 32,353,642	P 7,195,053	P 25,158,589
AC IX	27,951,911	26,855,378	1,096,533
	<b>P 60,305,553</b>	<b>P 34,050,431</b>	<b>P 26,255,122</b>

- 6.4. The variance in CAAP-HO was attributed to the absence of a supporting schedule for the carried forward account balances from the Air Transportation Office in CY 2008. The Chief Accountant stated that reconciliation was still ongoing; however, the Audit Team observed no actual efforts being undertaken to reconcile the records.
- 6.5. Similarly, the Area Accountant in AC IX explained that the variance resulted from the lack of records detailing the account breakdown before CY 2014.
- 6.6. Further, we observed that the settlement of disallowances amounting to P18.252 million was not recorded in AC IX, resulting in an overstatement of the account.

- 6.7. The maintenance of subsidiary ledgers for the Receivables-Disallowances/Charges account, as well as the regular monitoring of all disallowances, suspensions, and charges, whether final and executory or under appeal, should be integral to CAAP's record-keeping and control. This practice ensures the accuracy and reliability of the account and that all disallowances/suspensions and/or charges are accounted for accurately. Also, it serves as a means to easily verify the amount due from persons directly liable for the disallowances or charges at any given time.
- 6.8. The erroneous and non-recording of transactions were not only contrary to PAS 1, but also resulted in the misstatement of the account.
- 6.9. **We reiterated our previous years' recommendations, with modifications, and Management agreed to direct the:**
- a. **Department Manager III, Finance Department in CAAP-HO, to ensure that reconciliation of the account is indeed being conducted by requiring the Chief Accountant to regularly submit a status report on the reconciliation process of the account;**
  - b. **Chief Accountant and Area Accountant in AC IX to:**
    - i. **Identify and verify the cause/s of the variance noted, reconcile them, and make the necessary adjusting entry to correct CAAP's financial records; and**
    - ii. **Prepare the necessary journal entry voucher/s to accurately reflect the settlement of the NDs as per the issued NSSDC.**
- 6.10. In AC IX, Management commented that they would take up necessary adjusting/correcting entries to reflect the correct balances of the account. Management agreed to comply with the audit recommendations.
- 7. Inadequate documents to support transactions amounting to P10.511 million and non-maintenance of Subsidiary Ledgers (SLs) of the *Accounts Payable*.**
- a) ***Inadequate documents to support transactions amounting to P10.511 million.***
- 7.1. 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."
- 7.2. 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.

- 7.3. Review of the Journal Entry Voucher on the set-up of *Accounts Payable* (AP) account for CY 2024 showed that of the total year-end set up amounting to P13.160 million, P10.511 million were recorded with incomplete supporting documents, such as Inspection and Acceptance Reports, Purchase Order, Delivery Receipts, Statement of Account, unsigned disbursement vouchers by the authorized signatories, among others.
- b) *Non-maintenance of SL for Accounts Payable (AP) account***
- 7.4. Section 114 of PD No. 1445, known as the Government Auditing Code of the Philippines, provides that government agencies should maintain a general ledger in which all financial transactions are recorded. It also requires that subsidiary records shall be kept where necessary.
- 7.5. The AP account as of year-end could not be verified/validated due to the non-maintenance of complete subsidiary ledgers.
- 7.6. **We recommended that Management require the Accounting In-Charge in AC V to:**
- a. **Submit the lacking supporting documents for the payables amounting to P10.511 million;**
  - b. **Furnish the Audit Team with the SL of the *Accounts Payable* account for further validation; and**
  - c. **Henceforth, record only those obligated transactions with complete supporting documents and ensure that obligations are recognized in the books of accounts when goods or services have been delivered or rendered.**
- 7.7. The Accounting In-charge disclosed that a total of P1.4M *Accounts Payable* had no supporting documents, which would be reverted to Retained Earnings.
- 8. The *Due to National Government Agencies* (NGAs) account balance of AC X amounting to P2.780 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.**
- 8.1. Paragraph 15 of the Philippine Accounting Standards (PAS) 1 Presentation of Financial Statements requires the fair presentation of financial statements of an entity.
- 8.2. 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.

- 8.3. Analysis of CAAP AC X's Financial Statements (FS) as of December 31, 2024, revealed that the AC's *Due to NGAs* account balance amounted to P2.780 million. This liability was initially recognized in the books of accounts around CY 2013 when funds were received from the DOTr, despite the absence of any proof of a binding contract or memorandum of agreement to substantiate the recorded obligation and related transactions.
- 8.4. Further, verification of the *Due to NGAs* account against the related Cash in Bank account as of December 31, 2024, disclosed an unreconciled difference of P498,086, indicating insufficient cash to cover the recorded liability of AC X.
- 8.5. The difference could not be reconciled due to missing turnover documents. In addition, the absence of a binding contract or agreement made it difficult for the Area Center to determine the fund's purpose, assess the regularity of related transactions, and facilitate proper settlement.
- 8.6. **We reiterated our prior year's recommendations, with modification, that Management:**
- a. **Prepare a written representation to DOTr supported by recent email communications and submission of the Report of Status of Funds by CAAP AC X, to request proof of a binding contract or agreement that would establish the appropriate use of the fund based on its intended purpose; and**
  - b. **Request assistance from the Head Office Finance Department to reconcile the cash and liability balances, addressing the P498,086 variance, to ensure sufficient cash back-up is available for settling the obligation when it becomes due.**
- 8.7. During the Exit Conference, the CAAP-HO AD informed the Audit Team that they met with DOTr on June 10, 2025, during which DOTr requested details on the transferred funds. AC X provided the information, which the CAAP-HO AD promptly forwarded to the DOTr.
- 8.8. Moreover, the Area Accountant committed to coordinating with the HO Finance Department to fully reconcile the recorded liability and corresponding cash balances related to the DOTr funds.
9. **The faithful representation of the balance of the *Guaranty/Security Deposits Payable* account of P65.900 million was not achieved due to a variance of P1.457 million between General Ledger (GL) and Subsidiary Ledgers (SLs) balances and dormant accounts of at least P0.853 million.**
- 9.1. This is a reiteration of our observations from CYs 2021 to 2023 Annual Audit Reports (AARs), with updated information.
- 9.2. 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.

- 9.3. Comparison between the balances of GL and SLs revealed a variance of P1.457 million. Details are shown in Table 19.

**Table 19. Variance Between GL and SLs' Balances**

<b>Balance as of December 31, 2024</b>		<b>Amount</b>
Per GL		P 43,544,217
Per SL		42,086,843
		<b>P 1,457,374</b>

- 9.4. The SL balance of P42.087 million is broken down as follows:

**Table 20. Breakdown of Balance per Subsidiary Ledger**

<b>Particulars</b>	<b>Amount</b>
Reclassification of Bail Bonds Payable	P 19,712,017
Subsidiary Ledger for Infrastructure Projects	17,277,891
Subsidiary Ledger for Procurement of Goods	4,244,379
CY 2009 Unaccounted Beginning Balance	852,556
	<b>P 42,086,843</b>

- 9.5. In compliance with the Audit Team's recommendations to address the same observation raised in CY 2020, the Accounting Division (AD) prepared, maintained, and updated Subsidiary Ledgers (SLs) for the account. Despite these efforts, analysis of the records still revealed variances in the maintenance and monitoring of SLs for contractors from whom CAAP had withheld retention money.

- 9.6. The Audit Team noted the following issues:

- a. Various unaccounted transactions with suppliers under the SLs for Infrastructure Projects, amounting to P4.995 million, covering the period CYs 2009 to 2017, with some transactions potentially considered dormant;
- b. Absence of supporting documents for the reclassification of the Bail Bonds Payable account to the Guaranty/Security Deposits Payable account, with no corresponding SLs for the original transactions recorded in the former;
- c. An unaccounted beginning balance of P0.853 million for CY 2009 pertaining to the accounts of the then Air Transportation Office (ATO), likewise considered dormant;

- d. Variance between the balances of GL and SLs could also be partly attributed to the negative balances recorded in the SLs of individual contractors, as presented in Table 21:

**Table 21. Abnormal or Negative Balances**

Contractors	Amount
<b>Subsidiary Ledger for Procurement of Goods</b>	
Contractor 1	P 845,380.94
Contractor 2	325,711.95
Contractor 3	163,280.00
Contractor 4	116,700.00
Contractor 5	78,264.48
Contractor 6	50,133.00
Contractor 7	46,004.30
Contractor 8	32,400.00
Contractor 9	3,699.50
Contractor 10	3,685.50
<b>Sub-Total for Procurement of Goods</b>	<b>P 1,665,259.67</b>
<b>Subsidiary Ledger for Infrastructure Projects</b>	
Contractor 11	405,810.00
Contractor 12	122,460.41
<b>Sub-Total for Infrastructure Projects</b>	<b>P 528,270.41</b>
<b>Grand Total</b>	<b>P 2,193,530.08</b>

- 9.7. The abnormal or negative balances in the SLs were primarily due to the non-recording of the withheld retention money from payments to contractors and the recording of the release of such amounts despite the absence of corresponding entries in the SL.
- 9.8. Furthermore, in AC V, the beginning balance of the account in the amount of P1.953 million could not be ascertained due to the absence of schedules and related records.
- 9.9. We emphasized that SLs are essential tools for the control and monitoring of financial transactions, and as such, require accurate recording and consistent maintenance.
- 9.10. As CAAP implemented numerous projects and contracts, it was imperative to maintain and regularly update the SLs to ensure accurate and reliable financial records. However, the continued deficiencies in SL maintenance, inaccurate recording of transactions, and unreconciled variances rendered the balance of the Guaranty/Security Deposits Payable account unreliable.
- 9.11. **We reiterated our prior years' recommendations, with modification, that Management direct:**
- a. **CAAP-HO to conduct a comprehensive reconciliation between the General Ledger (GL) and Subsidiary Ledgers (SLs) for the Guaranty/Security Deposits Payable account by reviewing and**

verifying the balances and recorded transactions in both the GL and the SLs for each contractor, including those with abnormal or negative SL balances;

- b. CAAP-HO to make the necessary adjustments in the books of accounts, if warranted, and submit the Journal Entry Vouchers (JEVs) with complete supporting documents to the Audit Team for validation;
- c. 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;

9.12. We further recommended that Management direct the Accounting Division to:

- d. Retrieve and validate the supporting documents and reconstruct the SL for the *Bail Bonds Payable* account, which had been reclassified to the *Guaranty/Security Deposits Payable* account;
- e. Investigate dormant balances, especially those dating back to CY 2009, secure the necessary documents, and request the approval of COA to write off/derecognize from the books of accounts, if warranted, in accordance with the procedures prescribed under COA Circular No. 2023-008; and
- f. Develop and implement control procedures to prevent the occurrence of negative SL balances by ensuring the proper setup of withholding entries before any retention payment is processed.

9.13. CAAP-HO commented that the AD had conducted a reconciliation between SL and GL of the account. While variances were identified during the process, AD encountered difficulties in retrieving old records dating back to CY 2013 and earlier. They committed to the following corrective actions: (i) update the SLs to address negative balances; (ii) prepare SLs for Bail Bonds Payable that had been reclassified to the account; (iii) investigate dormant balances and include them in the request for write-off; and (iv) implement stricter monitoring of SL balances, particularly upon payment of retention money to the contractors.

## B. OTHER OBSERVATIONS

### 10. Unutilized project funds amounting to P176.660 million from cancelled and completed projects had not been returned to the Department of Transportation (DOTr) as of December 31, 2024, contrary to Item No. 4.9 of COA Circular No. 94-013.

- 10.1. Under Item No. 4.9 of COA Circular No. 94-013, the Implementing Agency is required to return any unused balance to the Source Agency upon completion of the project.
- 10.2. Likewise, various Memoranda of Agreement (MOAs) executed between CAAP and DOTr provide that any unutilized portion of the project funds for each of the Airport Project, including all interest earned, must be returned to the DOTr with proper acknowledgement (Official Receipt).
- 10.3. As provided in these MOAs, project fund releases from DOTr are typically made in three tranches.
- 10.4. Audit disclosed that as of December 31, 2024, CAAP continued to hold unutilized funds from DOTr amounting to P176.660 million, pertaining to four cancelled projects and six completed projects. The details are as follows:

#### ***a. Funds transferred by DOTr to CAAP for four cancelled DOTr-downloaded projects amounting to P169.130 million***

- 10.4.a.1. As of December 31, 2024, the amount of P169.130 million remained unreturned to DOTr. This amount pertained to four DOTr-downloaded projects that were later cancelled, as reflected in the submitted Status Report as of the same date.
- 10.4.a.2. Further inquiry disclosed that in a letter dated October 25, 2023, DOTr reiterated its request for CAAP to expedite the Detailed Engineering Design and procurement activities for various projects with downloaded funds amounting to P2.631 billion, which remained unutilized at that time. The letter also identified several projects, with a total fund amount of P259.302 million, for reversion to the DOTr, as agreed upon during the DOTr-CAAP Coordination Meeting held on October 23, 2023. To facilitate the cancellation of the related MOAs and the reversion of funds, DOTr requested CAAP to submit the necessary supporting documents.
- 10.4.a.3. In response, CAAP issued an undated letter in CY 2024 re: Justification to retain various projects that are subject for reversion (funded under MOA GAA CYs 2015, 2016, 2018 and 2021). In this letter, CAAP provided their reasons for recommending the deferment of fund reversion of eight projects. Furthermore, CAAP requested for reconsideration

from the DOTr, but as of this writing, CAAP had not yet received a reply.

10.4.a.4. Moreover, in a letter dated January 21, 2025, CAAP informed DOTr of its plans regarding the utilization of transferred funds and the cancellation of certain downloaded projects. In the same letter, CAAP requested further consideration from DOTr, but had yet to receive their reply.

**b. *Unutilized funds with an aggregate amount of P7.530 million for six completed projects with retention money already paid to the Contractors***

10.4.b.1. Review of relevant documents and the submitted Status Report on DOTr-downloaded projects disclosed that retention money for six completed projects had already been released to the respective contractors in CYs 2021 to 2024. However, the unutilized balance of P7.530 million had not been returned to the DOTr, contrary to Item No. 4.9 of COA Circular No. 94-013 and the MOA.

10.5. Since CAAP was implementing a number of DOTr downloaded projects, it was essential to establish clear agreements with DOTr on the treatment of unutilized funds and cancelled projects. The absence of supporting documents reflecting the mutual concurrence of both parties on these matters might lead to potential conflicts or accountability issues later on.

**10.6. We recommended, and Management agreed to direct the AD and ADMS to:**

- a. Immediately coordinate with the DOTr to formalize agreements concerning the request of CAAP to retain the unutilized funds for cancelled and completed projects; and**
- b. Obtain and maintain complete documents to support any agreements reached with the DOTr on the disposition of such funds and projects.**

10.7. On June 10, 2025, CAAP met with DOTr, during which DOTr advised CAAP to submit a formal request letter regarding the unutilized funds.

**11. Absence of a provision in CAAP MC No. 022-17 requiring the Air Carriers to remit unrefunded Domestic Passenger Service Charges (DPSC) 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.**

- 11.1. This is a reiteration of our observations in the CY 2023 Annual Audit Report (AAR), with updated information.
- 11.2. 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.
- 11.3. 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.”
- 11.4. Review disclosed that the provisions of the circular, except those distinct in the operations of CAAP, was patterned and substantially lifted from the integration policies of the Manila International Airport Authority (MIAA), particularly MC No. 06 dated March 31, 2017.
- 11.5. An audit of income from DPSC recorded under the Transportation System Fees account (4-02-02-070) 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**

- 11.5.a.1. CAAP and MIAA essentially have the same mandate as provided under their respective Charter, which is to set comprehensive, clear, and impartial rules and regulations for the Philippine aviation industry.
- 11.5.a.2. The 2016 MOA and CAAP MC No. 022-17 specify the responsibilities of Air Carriers in processing DPSC refunds. While MC No. 022-17 specifies the guidelines and documentary requirements for processing refunds to passengers with unused tickets, it lacks provisions requiring the Air Carriers to remit to CAAP the unrefunded DPSC collected from exempted passengers or unused/expired tickets.
- 11.5.a.3. In the case of MIAA, CAAP issued the revised implementing guidelines on Passengers Service Charge (PSC) integration through MC No. 18 (series of 2019) that took effect in June 2019. These revisions and amendments, including the

remittance of PSC for expired/unused tickets, are outlined in Section 6 of the MC.

- 11.5.a.4. 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.
- 11.5.a.5. 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 management review/revisit the rules and regulations embodied in CAAP MC No. 022-17, and take appropriate action and/or introduce revisions, considering the changes implemented by MIAA.
- 11.5.a.6. Management responded that public hearings and consultations began in 2019, and a draft amendment was prepared, slated for approval and implementation in early 2020 but postponed due to the COVID-19 pandemic.
- 11.5.a.7. In September 2022, the 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. 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.
- 11.5.a.8. Despite initial approval, in April 2023, the Board deferred the revised guidelines for further study and review. As of this date, amendments to CAAP MC No. 022-17 remained under review.

**b. Air Carriers' non-remittance to CAAP of unrefunded DPSCs from Locally-Recognized Exempted Passengers (LREP)**

- 11.5.b.1. Section 4.4 of CAAP MC No. 022-17 identifies passengers exempted from paying DPSC, including infants, flight and extra crew, transit passengers, and Locally Recognized Exempted Passengers (LREPs), defined under Section 3.11, as officials and employees of CAAP who are on Official Travel or authorized by law and the Office of the President.
- 11.5.b.2. Sections 8.1 and 8.2 assign the responsibility for the processing of refunds to CAAP, while Section 8.4 mandates Air Carriers to refund DPSCs to exempt passengers erroneously charged.

- 11.5.b.3. 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.
- 11.5.b.4. Audit revealed that the AD was not aware that CAAP officials and employees were tagged as LREPs. They were also not 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.
- 11.5.b.5. Under the 2016 MOA, DPSCs collected by Air Carriers are held in trust for CAAP. The lack of enforcement mechanisms since 2017 has resulted in uncollected revenue. Management had initiated revisions to MC No. 022-17 to include remittance of DPSCs for unutilized tickets, but claimed that unrefunded DPSCs remained as trust liabilities for passengers, not a government income.
- 11.5.b.6. In the rejoinder dated May 15, 2024, the Audit Team emphasized that without a policy requiring Air Carriers to remit unrefunded DPSCs to CAAP, these funds, along with any interest earned while held by Air Carriers, remain unremitted, resulting in potential revenue loss to the government.
- 11.5.b.7. 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.
- 11.5.b.8. Additionally, the Air Carriers could 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.
- 11.5.b.9. Further, Air Carriers could 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 remitted 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 resulted in uncollected income for CAAP.

- 11.5.b.10. As to the Air Carriers' non-remittance to CAAP of unrefunded DPSCs from the LREPs, Management agreed to remove the LREP exemption, citing the Air Carriers' inability to identify such passengers. However, clarification and documentation were still requested by the Audit Team to support claims that CAAP employees were classified as "deadheading" and thus exempt from paying DPSCs.
- 11.6. **We reiterated our previous years' recommendations 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.**
- 11.7. **In addition, consider including the following provisions:**
- a. **For Air Carriers:**
    - i. **Submission of a detailed report on refunds made directly to paying passengers; and**
    - ii. **Setting up of a Trust Liability or another clearly identifiable account in the books of accounts as funds due to CAAP;**
  - b. **For the Accounting Division:**
    - i. **Issuance of balance confirmations or other forms of correspondence to verify the total amount of DPSCs collected but not yet refunded or remitted to CAAP; and**
    - ii. **Creation of a committee to regularly inspect and audit DPSCs in the books of Air Carriers.**
- 11.8. **Further, we recommended that Management instruct the Accounting Division to provide clarifications and submit pertinent documents to the Audit Team to support the claim that CAAP employees identified as LREPs per Remittance Reports were considered "deadheading" on such flights and thus, classified as non-paying passengers.**
- 11.9. On June 13, 2025, Management issued CAAP MC No. 036-2025 re Guidelines on the Collection and Remittance for Utilized, Expired, and Unutilized DPSCs. Section 6.3 of the MC states that all expired and unutilized DPSC shall be remitted to CAAP, following the remittance schedule outlined in the MC, effective July 1, 2025.
- 11.10. However, the provision requiring the remittance of unrefunded DPSCs accumulated since the implementation of the Integration of DPSC at the Point of Sale of Airline Tickets in CY 2017 was not included in the MC, as the corresponding guidelines remained under discussion by Management.

- 12. The absence of procedural guidelines for the recording, reconciliation, and monitoring of Domestic Passenger Service Charges (DPSC) collections and remittances, along with collection efforts that were not fully optimized, resulted in the accumulation of uncollected under-remittances amounting to P12.565 million for CYs 2023-2024.**
- 12.1. This is a reiteration of our observation from CYs 2022 to 2023 AARs, with updated information.
- 12.2. In 2016, CAAP entered into a Memorandum of Agreement with Air Carriers for the integration of Domestic Passenger Service Charge (DPSC) at the Point of Sale of Airline Ticket to trim down the processing of passengers. Related thereto, this Authority issued implementing guidelines under CAAP MC No. 022-17 (series 2017) to address the congestion in CAAP Terminals with the increasing volume of passengers.
- 12.3. Paragraphs 6.1 to 6.3 of CAAP MC No. 022-17 outline the responsibilities of Air Carriers in the remittance of DPSC collected, including the due date of remittance and the imposition of interest in case of failure to remit within the specified time.
- 12.4. In addition, Section 10.4 of the same CAAP MC states that all existing forms, procedures, and processes imposed by CAAP Operations to document flight departures, including attendant statistics thereto, shall remain enforced and may be used to validate/audit remittances of the DPSC by the Air Carrier.
- 12.5. Since the implementation of the Integration of DPSC at the Point of Sale of Airline Tickets in CY 2017, there had been no clear-cut policy established across all the CAAP Area Centers (ACs) on the recording, reconciliation, and monitoring of collection and remittances of DPSC.
- 12.6. In CY 2023, the Audit Teams at CAAP ACs conducted a walkthrough of the boarding process of outgoing passengers at CAAP airports. They successfully gathered relevant data for DPSC computation from the Flight Data Encoder/Recorder, a CAAP personnel responsible for preparing the Flight Monitoring Reports (FMRs) on Aircraft Operations and Airport Traffic.
- 12.7. Using the FMRs and other pertinent reports, the Audit Teams gathered the data on the number of enplaned passengers, categorizing them as “paying” or “exempted” from paying DPSC. The Audit Teams then determined the total gross income from DPSC or the Transportation System Fees (inclusive of Output Tax) for the period by multiplying the total number of “paying” passengers by the applicable DPSC rate.
- 12.8. On the other hand, the Air Carriers prepared and submitted the Remittance Reports for their DPSC collections from paying passengers and directly remitted the reported amounts to CAAP-HO.
- 12.9. As detailed in AOM No. 2024-015 (2023) dated May 10, 2024, the respective Audit Teams in CAAP ACs identified a consolidated net variance of P15.111

million between the computed DPSC based on FMRs and the amounts reported in the Air Carriers' Remittance Reports for CY 2023.

- 12.10. In CY 2024, CAAP conducted further reconciliation, resulting in an adjusted consolidated variance of P14.543 million for CY 2023. Subsequently, the Authority issued demand letters to the concerned Air Carriers, requesting a review of their reported figures and requiring them to inform CAAP of any necessary corrections on or before March 22, 2024. Otherwise, invoices would be issued after the specified date.
- 12.11. On April 25, 2024, CAAP issued billing invoices to the concerned Air Carriers for the under-remitted DPSC for CY 2023, including the corresponding interests and/or surcharges at a rate of 18 per cent per annum.
- 12.12. Further, Management directed all CAAP ACs to continuously reconcile under-remittances by comparing the computed DPSC from FMRs vis-à-vis the Air Carriers' Remittance Reports. Management concurred that these FMRs, duly attested and signed by the pilot and/or authorized airline personnel, served as valid documentary evidence for DPSC computation.
- 12.13. The variances identified between the two reports were reconciled to properly address both over and under-remittances of DPSC, as reflected in the Quarterly Variance Analysis Report. This report was prepared and submitted by the CAAP ACs to the CAAP-HO for consolidation and subsequent issuance of billings for under-remittances of DPSC, including the imposition of interests on the concerned Air Carriers.
- 12.14. Analysis of the submitted Quarterly Variance Analysis Report revealed that at least P12.565 million, or 44 per cent of the total under-remittances amounting to P28.577 million for CYs 2023 to 2024, remained unreconciled and/or uncollected from the following Air Carriers. To wit:

**Table 22. Unreconciled/Uncollected DPSC Under-Remittances from CAAP Quarterly Variance Analysis Reports Covering CYs 2023-2024**

DPSC Under remittances per Variance Analysis							
No.	Air Carrier	2023	2024	Total	Reconciled/ Collected	Unreconciled/ Uncollected	% of Collection
1.	Air Carrier 1*	P 4,488,550	P 6,923,600	P11,412,150	P11,412,150	P 0	100%
2.	Air Carrier 2	3,015,300	3,155,400	6,170,700	0	6,170,700	0%
3.	Air Carrier 3	1,816,200	2,521,400	4,337,600	0	4,337,600	0%
4.	Air Carrier 4	3,526,800	1,126,150	4,652,950	4,066,350	586,600	87%
5.	Air Carrier 5	986,650	396,700	1,383,350	0	1,383,350	0%
6.	Air Carrier 6	533,000	11,300	544,300	533,000	11,300	98%
7.	Air Carrier 7	53,100	21,950	75,050	0	75,050	0%
8.	Air Carrier 8	1,200	0	1,200	1,200	0	100%
		<b>P 14,420,800</b>	<b>P14,156,500</b>	<b>P28,577,300</b>	<b>P16,012,700</b>	<b>P 12,564,600</b>	<b>56%</b>

\*No DPSC Remittance Reports submitted to CAAP; Reported variance pertains to all unremitted DPSC collections computed per FMRs.

- 12.15. Verification revealed that as of February 2025, reported variances had been collected from four of the eight concerned Air Carriers. Some amounts remained uncollected despite subsequent billings for under-remittances and interest/surcharges.
- 12.16. The Audit Team reviewed the progress of reconciliation from the issuance of the demand letters in March 2024 up to the present. Some information

gathered from CAAP's correspondences with the concerned Air Carriers revealed that CY 2023 discrepancies were attributed to exempt passengers. While one Air Carrier had already completed reconciliation, others had encountered delays due to pending data validation, lack of response, volume of transactions, complexity of reports with diverse formats, and handwritten records. Another carrier also asserted that its automated departure control system, compliant with legal and regulatory requirements, should be the definitive basis for DPSC computation.

- 12.17. To date, the concerned Air Carriers have not raised further contentions nor requested verification/reconciliation of CY 2024 DPSC remittance variances. Hence, the succeeding billings for under-remittances, as reported in the Quarterly Variance Analysis of CAAP ACs, were deemed accepted.
- 12.18. It is worth emphasizing that the CAAP FMRs, as duly attested and signed by the pilot and/or authorized airline personnel, affirm the accuracy and completeness of reported information. Their signatures served as formal validation, reinforcing the reports' reliability in official records. In addition, Section 10.4 of the CAAP MC No. 022-17 (series 2017) explicitly states that all existing forms, procedures, and processes imposed by CAAP Operations to document flight departures, including attendant statistics, shall remain enforced and may be used to validate/audit remittances of the DPSC by the Air Carrier; hence, CAAP need to enforce its rights and claims in the collection of the reported under-remittances.
- 12.19. Given the challenges in collecting the accumulated under-remittances of P12.565 million for CYs 2023-2024, the Audit Team emphasized the need for Management to establish clear provisions and procedural guidelines for recording, reconciling, and monitoring DPSC collections and remittances. Without a strict enforcement mechanism and persistent collection efforts, CAAP's current approach of issuing demand letters and billings for under-remittances and imposition of interest/surcharges might lead to the continued accumulation of uncollected receivables.
- 12.20. **We reiterated our previous years' recommendations, with modifications:**
- 12.21. **For CAAP HO – Business Development Division to expedite the amendment of CAAP MC No. 022-17 and include clear provisions and procedural guidelines for the recording, reconciliation, and monitoring of DPSC collections and remittances, such as but not limited to the following:**
- **Standardized Reporting Format – Establish a uniform format for reports to be prepared and maintained by all ACs to facilitate the monitoring of paying and exempt passengers. At a minimum, reports must show the following details: Airport/location, Airline, Flight date and number, and the total number of “booked” paying passengers (flown and unflown) by classification. These reports should be signed by duly authorized CAAP personnel and acknowledged/certified by the pilots or airline company**

representatives, as concurrence to the accuracy of the information provided.

- **Defined Responsibilities and Reconciliation Procedures – Clearly designate the responsible office/s, the steps for regularly reconciling CAAP ACs’ records vis-à-vis the Airline companies’ DPSC Remittance Report, and specify the actions to be taken when variances are noted.**

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

- a. Promptly respond to the Air Carriers’ requests for documents and conduct additional verification to facilitate the reconciliation of the remaining unreconciled variance of P12.565 million between the Flight Monitoring Reports and DPSC Remittance Reports;**
- b. Develop plans to address the concerns raised by the Air Carriers during the ongoing reconciliation, identify other causes of the variance, and implement corrective actions to prevent the recurrence;**
- c. Implement a strict enforcement mechanism and persistent collection efforts, in addition to the imposition of interests/surcharges, to prevent the accumulation of uncollected receivables from the under-remittances of DPSC; and**

**12.23. For CAAP Flight Data Recorders/Encoders assigned at each Area Center: to coordinate regularly with the Accounting and Billing Units of Area Centers to monitor the Air Carriers’ operations in all CAAP Airports and ensure the accurate encoding of details, particularly the number of paying passengers declared in the CAAP Flight Monitoring Reports.**

12.24. Management explained that the forms were revised and improved to be used by the Area Centers and Airports, and to reflect the concurrence of both CAAP and airline representatives. The need for additional forms is currently under review to ensure the accuracy and completeness of the collected data.

12.25. The Business Development Division would also coordinate with the Accounting Division (AD) on the procedure to adopt in the reconciliation of figures of the airlines and CAAP.

12.26. Management also commented that CAAP had submitted the requested documents for CY 2023. Meanwhile, the requested documents for CY 2024 would be submitted immediately once provided by the Area Centers.

12.27. The AD committed to coordinating with Area Accountants on how to address the concerns raised by the air carriers. Moreover, Management claimed that these concerns might be addressed by the new policy regarding PSC.

- 12.28. Further, the AD claimed that they are currently sending emails to operators day after the expected date of remittance to remind them of their obligation to submit reports and remit the corresponding amount of PSC for the period.
- 12.29. Management also commented that periodic coordination is made by the Airports and Area Centers with the AD–Head Office to countercheck the accuracy of the information on the forms.
- 12.30. The Audit Team would like to emphasize the importance of the Flight Monitoring Reports as a key reference in the preparation of the quarterly variance reports. It is imperative that Flight Data Encoders/Recorders exercise utmost diligence in ensuring the accuracy of all encoded information, particularly the number of paying passengers reflected in the CAAP Flight Monitoring Reports. This is essential to mitigate potential disputes from Air Carriers regarding the validity of the reported under-remittances of DPSC.
- 12.31. On June 13, 2025, CAAP issued Memorandum Circular (MC) No. 036-2025. Section 9.4 of the MC enumerated the required documents for confirming the Collection and Remittance of DPSCs, which include: 1) Summary of Outgoing Passengers Report; 2) DPSC Remittance Report; 3) Details of Remittance; 4) Summary of Exempted Passengers; 5) Daily Load Report; and 6) DPSC on Expired Airline Tickets Report. However, the standardized pro-forma templates for these documents were not included in the MC. The finalization of the forms and their specific contents was still in progress at the time of issuance.

**13. The lack of well-defined policies and controls to optimize the billing and collection process of water and electric charges to all concessionaires at the CAAP-Head Office resulted in unbilled and uncollected utilities by at least P11.122 million as of December 31, 2024.**

- 13.1. This is a reiteration of our observations in the CY 2023 Annual Audit Report (AAR), with updated information.
- 13.2. 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 CAAP. The CAAP-HO Business Development Division (BDD), as Concession-in-Charge, would function as the overall manager of the concession program. The CAAP-HO Corporate Planning Office (CORPLAN) would impose a performance management and development standard with every concession agreement it enters into.
- 13.3. 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.

- 13.4. Meanwhile, Part V (F) of the 2017 CAAP Concession Policy Manual re: Concession Business Terms provides that the utility charges are calculated by the Finance Department (central office or airport) and applied on an annual or monthly basis. Computation would rely on the measured space established in the concession agreement. For concessionaires with separate meters or sub-meters, charges would be computed.
- 13.5. Analysis of the Rent/Lease Income account and the related Operating Lease Receivable revealed that as of December 31, 2024, at least P11.122 million of estimated water and electric charges from CYs 2018 to 2024 were unbilled/uncollected from the lessees in CAAP-HO.
- 13.6. 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 observed the following:
  - a. Monthly billing statements for water and electric charges were not promptly and regularly issued to the concessionaires. This resulted in accumulated charges billed on a lump-sum basis, spanning more than one year;
  - b. 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;
  - c. 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;
  - d. 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
  - e. 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.

- 13.7. Verification revealed that utility charges had been regularly billed and collected from only two of the five concerned CAAP-HO concessionaires. As a result, a substantial portion of the estimated water and electricity charges for the remaining three concessionaires remained unbilled.
- 13.8. Meanwhile, the Internal Audit Service (IAS) conducted a special audit within the BDD and at selected CAAP airports from April to July 2024. IAS had identified several areas for improvement, including the billing and collection processes for water and electric charges. They committed to continuing the implementation of the action plans, including the development of policies and guidelines.
- 13.9. Further, Management informed that the BDD was collaborating with the Finance Division to update the 2017 Concession Manual. This update would include provisions addressing the billing and collection processes for concessionaire utilities. Management had committed to providing COA with a copy of the finalized and approved manual.
- 13.10. We would like to emphasize that CAAP has borne the full cost of utilities, including the shares attributable to these concessionaires. This practice had resulted in uncollected charges, depriving the Authority of funds that could otherwise support its mandate.
- 13.11. The accumulation of uncollected water and electricity charges could have been prevented through periodic reviews of the concessionaires' compliance with the terms and conditions of the contract and diligent monitoring of their payments.
- 13.12. **We reiterated our prior year's recommendations that Management instruct the following:**
- a. **Business Development Division in coordination with the Internal Audit Services to 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;**
  - b. **Accounting Division to expedite the preparation and issuance of billing statements and, henceforth, ensure the timely and regular issuance of monthly billings for water and electric consumption to all concessionaires; and**
  - c. **Buildings and Grounds and Maintenance Service to 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 2018-2024.**

- 13.13. Management explained that BDD issued a Memorandum dated July 10, 2024, regarding the installation, monthly meter reading and recording of utility usage at CAAP-Central Office and Airports. In line with the recommendation of the Internal Audit Service (IAS), BDD appointed a task force primarily responsible for conducting utility meter readings and recording at CAAP- Head Office and Airports.
- 13.14. Accordingly, BDD, in coordination with the Finance Department (FD), and with the participation of billing and collection representatives from Area and Airports, has been brainstorming the development of concession billing and collection processes. The results of these consultations had been incorporated into the proposed revisions of the CAAP Concession Manual.
- 13.15. Management also commented that the BDD, as the process owner, would lead the policy formulation, being the office primarily responsible in the development and enforcement of airport concession policies and guidelines, while the IAS examines and contributes to the ongoing effectiveness of the internal control system through their evaluations and recommendations.
- 13.16. IAS provided a copy of the Memorandum that had been issued to BDD, directing the establishment of a comprehensive billing and collection policy with embedded controls on the relevant processes, to include, but not limited to, defined roles, accountability, and procedures. The internal audit findings and recommendations that were already conveyed to the BDD could serve as their baseline reference for this undertaking.
- 13.17. IAS also submitted a copy of the summary of results of the Audit of Income Process on Concession on selected airports and the Operations Audit on BDD to the Audit Team.

**14. The recurring delays in the approval/renewal of Contracts for Lease for Concessions (CLCs) at CAAP-Head Office and all Area Centers indicate the need to strengthen internal control measures.**

- 14.1. This is a reiteration of our observation in CY 2023 AAR, with updated information.
- 14.2. The 2017 CAAP Concession Manual provides that there was no automatic extension or renewal to any concession or service agreement. Negotiation with an existing concession or operator for renewal or extension of term would 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.
- 14.3. The 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.

- 14.4. Based on the submitted latest Concession Masterlist from the Business Development Division (BDD), as of May 2025, 489 out of 966 CLCs for CY 2024, or 50.62 per cent of the total CLCs covering the concessionaires in the CAAP Head Office and all Area Centers, were still in process.
- 14.5. 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.
- 14.6. In response to the Audit Team's inquiry letter dated October 8, 2024, requesting updates on the decentralization and/or delegation of signing authorities, Management stated that the updated Concession Manual, being developed by the BDD, would incorporate revised procedures for the preparation of lease contracts.
- 14.7. Nonetheless, we would like to emphasize that a centralized approval and renewal process for all CLCs in CAAP-HO might no longer be considered efficient or practical. The BDD would need to handle requests from all concessionaires across the 41 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.
- 14.8. Likewise, 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.
- 14.9. We reiterated our previous year's recommendation that Management 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 approval and renewal process of CLCs.**
- 14.10. Management commented that they had already incorporated in the proposed revised CAAP Concession Manual the administration of the term of privilege granted to concessionaires. The classification of permitted use would be the primary basis, in consideration of other factors, for the lease term granted to concessions varying from one to five years. This would also ease the approval and renewal process and increase efficiency in the handling of CLCs.

15. CAAP-HO did not undertake sufficient measures to ensure the collection and settlement of receivables recorded under the Other Receivables account amounting to P18.736 million. In addition, no request for approval to write off dormant accounts had been filed with COA, as provided under COA Circular 2023-008 dated August 17, 2023.

15.1. This is a reiteration of our observations from CYs 2019 to 2023 AARs, with updated information.

15.2. COA Circular No. 2023-008 dated August 17, 2023, provides the necessary guidelines on the write-off of dormant receivable accounts. 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 immediately to avoid being dormant.

15.3. As of December 31, 2024, the Other Receivable account had a balance of P47.628 million, with an accumulated impairment of P43.195 million and a carrying amount of P4.433 million in the financial statements. The breakdown and the aging of these receivables are shown in Table 23.

**Table 23. Breakdown and Aging of Other Receivables as of December 31, 2024**

Particulars	Amount	Aging of Other Receivables account		
		below 10 years	below 10 years	more than 10 years <i>(reported as dormant)</i>
Unliquidated cash advances of retired, resigned, and separated employees	P 29,729,755	P 157,835	P 519,450	P 29,052,470
Unsubstantiated balance <i>(No documents to support the receivables)</i>	8,999,557	0		8,999,557
Receivables from contractors	3,566,129	0		3,566,129
Receivable from the Federal Aviation Authority of the United State of America	3,266,809	3,266,809		0
Receivables from former Collecting Officers due to undeposited collections	894,417	0		894,417
Unliquidated cash advances of Office of the Government Corporate Counsel (OGCC) Lawyers	752,655	752,655		0
Unliquidated cash advance of the former CAAP Chairman of the Board of Directors	255,530	255,530		0
Unliquidated cash advances of flight inspectors for Daily Subsistence Allowances paid by stakeholders	162,905	0	162,905	0
<b>Balance, December 31, 2024</b>	<b>P 47,627,757</b>	<b>P 4,432,829</b>	<b>P 682,355</b>	<b>P 42,512,573</b>
Percentage to balance		9.31%		90.69%
Allowance for Impairment	43,194,928			
<b>Carrying value</b>	<b>P 4,432,829</b>			

15.4. As can be seen in the preceding table, P43.195 million or 90.69 per cent of the Other Receivables account was already dormant. Although an allowance for impairment was recorded, no request was submitted to the Audit Team to write

off the dormant and uncollectible balances, contrary to COA Circular No. 2023-008.

15.5. In addition, the audit disclosed that CAAP did not exert sufficient and appropriate measures to ensure the collection and settlement of specific balances in the total amount of P18.736 million in the account, as detailed below:

- a. The balance of unliquidated cash advances of retired, resigned, and separated employees included P10 million in confidential funds granted to a former CAAP Director General in CY 2011. Despite the prior issuance of an Audit Observation Memorandum by the Intelligence and Confidential Fund Audit Unit (ICFAU) of COA, CAAP did not retrieve and submit the documents needed for liquidation.
- b. Receivables from contractors of P3.566 million pertained to long-outstanding unrecouped advances of eight contractors. We noted that one contractor, with unrecouped advances of P1.815 million, also had an existing contract/project with CAAP. Audit disclosed that CAAP made no attempt to deduct/recover the unrecouped advances from earlier billings under this current project and communicated its intent to recover the balance only on June 2, 2022. However, due to project suspension over right-of-way issues, implementation of the project only resumed on March 29, 2025; hence, no progress billings had been processed from which the P1.815 million could be recovered.

Meanwhile, three of the eight contractors had not responded to the demand letters previously issued by CAAP, and no demand letters had been issued to the remaining four.

- c. The receivable from the Federal Aviation Authority (FAA) of the United States of America represented CAAP's remaining balance from a 2016 engagement. The FAA provided CAAP with two Safety Specialists and one Subject Matter Expert with backgrounds in airworthiness, operations, and/or other expertise, as appropriate. Due to the absence of documents to support the completion of the project, the balance remained unliquidated as of CY 2023. On May 28, 2024, the FAA confirmed the engagement was completed, resubmitted the reports, and informed CAAP of a remaining fund balance of \$68,916, recoverable after the submission of the required forms and bank information. Despite receiving the FAA's letter on June 5, 2024, CAAP did not immediately provide the necessary form and information to the FAA to process the refund. CAAP only submitted the required form and bank information on February 5, 2025, or eight months later. Had CAAP responded to the FAA in a timely manner, the refund could have been processed in CY 2024.

- d. The receivables from former Collecting Officers amounting to P0.894 million referred to undeposited collections dating back to 2013. Audit noted that CAAP had yet to issue demand letters to the erring employees who were no longer connected with CAAP.
  - e. The unliquidated cash advances of OGCC lawyers amounting to P0.753 million included both current and long-outstanding cash advances for travel. Of this amount, P269,185 pertained to an ongoing case relative to a CAAP employee who allegedly received the liquidation documents and monies for refund from the OGCC lawyers. The remaining balance had remained unliquidated beyond the prescribed period. Despite this, CAAP continuously granted cash advances to the lawyers. Furthermore, no demand letters had been sent to the lawyers, nor had CAAP communicated with the OGCC relative to the non-compliance of its lawyers, despite consistent recommendations from the Audit Team.
  - f. The unliquidated cash advance of the former Chairman of the CAAP Board of Directors amounting to P255,530, pertained to a CY 2024 cash advance for travel to New Delhi, India, to attend a conference on September 11-12, 2024. Audit noted that the cash advance was not supported by a duly approved disbursement voucher, Travel Order, and the explicit authority from the Office of the President for the purchase of business class airfares as required under Section 12 of Executive Order (EO) No. 77, s. 2019. Moreover, the liquidation of the cash advance had yet to be accomplished, and CAAP had yet to follow up on the necessary documents to settle the balance.
- 15.6. The lack of effective enforcement in collecting and settling these receivables deprived CAAP of funds that could have been used to further accomplish its mandate. It likewise cast doubt on the validity of the underlying transactions.
- 15.7. **We reiterated our previous years' recommendations, with modification, and Management agreed to instruct the Department Manager III and the Chief Accountant to:**
- a. **Locate and expedite the retrieval and submission of the required documents to the Intelligence and Confidential Fund Audit Unit to liquidate the long-outstanding cash advances for confidential funds;**
  - b. **Coordinate immediately with the Federal Aviation Authority to clarify the necessary information for processing the \$68,916 refund to settle the balance in the books of account;**
  - c. **Determine the remaining payables to the contractor with an ongoing project with CAAP, and ensure that the unrecouped advances of P1.815 million are duly deducted from subsequent billings;**

- d. **Immediately issue demand letters to the OGCC lawyers, the four contractors, and the former collecting officers of CAAP to pursue the collection of their outstanding balances recorded under the Other Receivables account;**
- e. **Inform the OGCC regarding its lawyers' non-compliance with relevant laws, rules, and regulations;**
- f. **Coordinate with the Department of Transportation and the former Chairman of the CAAP Board for the immediate submission of liquidation documents to settle the account, including the approved travel order and the explicit authority from the Office of the President to avail of business class airfare in accordance with EO No. 77, s. 2019;**
- g. **Provide a valid explanation for processing the cash advance despite the absence of the required documents and a duly approved disbursement voucher, and justify why these transactions should not be disallowed in audit; and**
- h. **Exhaust all viable means to secure the necessary documents to support the write-off of dormant receivable balances and immediately request COA's approval for write-off in accordance with COA Circular No. 2023-008.**

**16. Deficiencies in the handling and monitoring of leave cards resulted in erroneous Schedule of Leave Balances.**

- 16.1. This is a reiteration of our observations in CY 2023 AAR, with updated information.
- 16.2. 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.
- 16.3. 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, 2024, the Leave Benefits Payable account balance for CAAP-HO stood at P434.078 million.
- 16.4. In CAAP-HO, the Audit Team randomly selected 80 leave cards out of the 966 regular employees of CAAP. We noted that 62 or 77.50 per cent out of the 80 leave cards contained various arithmetical errors and inaccurate or non-posting of earned or utilized leave credits. Ultimately, the Audit Team observed

that 38 leave cards were understated by P0.574 million and 24 leave cards were overstated by P378,209, which resulted in the net understatement of the Leave Benefit Payable account by P196,097.

- 16.5. Despite consistent follow ups on the implementation of our recommendations for the HRMD to initiate and prioritize the reconciliation of records between the HRMD and all CAAP-HO employees to correct the balances in the leave cards, we noted that the HRMD had yet to submit a duly reconciled Schedule of Leave Balances to the Accounting Division and this Office.
- 16.6. Moreover, we observed that the HRMD still had no established process for the regular updating of leave cards. Leave cards were only updated when a particular employee applied for leave, leave monetization, and/or terminal leave benefits. HRMD maintained the status quo while awaiting the implementation of the Human Resource Information System (HRIS) being procured by CAAP. While the HRIS might address our recommendation, the Audit Team emphasized the need for interim measures to ensure the timely and accurate updating of leave cards. The absence of a process affected the accuracy of leave balances and might lead to over- or underpayment of Terminal Leave Benefits. We also reminded Management that the HRIS' reliance on data manually entered by end-users, and inaccurate input from HRMD due to current process deficiencies might worsen the issue.
- 16.7. 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.
- 16.8. **We reiterated our previous year's recommendation, with modification, and Management agreed to direct:**
  - a. **The OIC, HRMD in CAAP-HO to:**
    - i. **Provide an explanation as to why the reconciliation of leave cards and the updating of related processes were not prioritized, despite their importance;**
    - ii. **Expedite the revision of its process on updating and maintenance of leave cards and ensure that the revised process would include the regular updating of the leave cards and other internal control measures as approved by the Internal Audit Service. Submit a copy of the revised process to the Audit Team; and**
  - b. **The Chief Accountant to adjust the balance of the Leave Benefits Payable account based on the reconciled balances of leave credits of employees to be submitted by the HRMD.**

**c. For CAAP HO and AC VI 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.**

- 16.9. The OIC, HRMD, remarked that they were committed to submit the duly reconciled and updated schedule of individual CAAP employee leave balances to the Accounting Division, and copy furnish the COA Audit Team, before the end of the year 2025.
- 16.10. Additionally, a number of process revisions were put in place involving the computerization of leave data/balances utilizing the online Excel file, which resulted in more timely updating of leave card balances recorded in individual employee leave cards.
- 16.11. Lastly, HRMD is currently awaiting the installation and implementation of the computerized Human Resource Information System (HRIS), which had been procured as part of the Administrative and Finance Information System (AFIMS)
- 17. The monetization of leave credits of CAAP-HO employees is 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.**
- 17.1. This is a reiteration of our observations in CY 2023 AAR, with updated information.
- 17.2. 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.
- 17.3. The Audit Team noted that 67 requests for monetization of leave credits were filed and granted by CAAP-HO amounting to P5.474 million. However, the Audit Team observed that five requests for monetization of leave credits amounting to P428,213 were granted despite not having accumulated 15 Vacation Leave (VL) credits as required by the above-mentioned guidelines. 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 is not in compliance with Section 22 of the ORL, which states that only VL credits may be monetized, except for valid and justifiable reasons as identified in Section 23 of the ORL.

- 17.4. We reiterated our previous year's recommendations, and Management agreed to:**
- a. Instruct the officers responsible for approving requests for monetization of leave credits to ensure strict compliance with the ORL and the existing CAAP Memorandum when authorizing the monetization of leave credits; and**
  - b. Justify why the payment of leave monetization contrary to the ORL amounting to P428,213 should not be disallowed in audit.**
- 18. The irregular disbursements of P0.731 million for Salaries and Wages, Allowances, Benefits, and Incentives made to a resigned employee were contrary to established laws, rules, and regulations.**
- 18.1. The processing and payment of salaries and wages, along with various allowances, benefits, and incentives, are regulated by numerous laws, rules, and regulations, to wit:
- a. COA Circular No. 91-368 dated December 19, 1991, mandates the use of the Government Accounting and Auditing Manual (GAAM), Volume 1. Sections 191 and 194 of GAAM, Volume 1 state, among others, that the payment of salaries and wages shall be based on services that were actually rendered during prescribed hours, properly recorded in a time record, certified by the employee, and approved by the immediate supervisor.
  - b. CAAP Memorandum Circular No. 27-13 and Administrative and Finance Service (AFS) Operations Manual provide internal regulations on the submission of the monthly DTR and the preparation of the payroll register.
  - c. Compensation and Position Classification System (CPCS) Circular No. 2021-003 dated January 12, 2022 states that the Personnel Economic Relief Allowance (PERA) shall be at P2,000.00 per month which shall be paid to officers and employees of GOCCs, provided they render full-time services for eight (8) hours per working day, 22 working days per month (or the number of assigned working days in any given month), inclusive of absences with pay.
  - d. Section 11 of the Implementing Rules and Regulation (IRR) of RA No. 8291 (GSIS Act of 1997), Section 16 of the Revised IRR of RA No. 7875 (National Health Insurance Act of 2013) and Rule VI, Section 1 of the IRR of RA No. 9679 (Pag-IBIG Law of 2009) state that contributions/premiums to GSIS/PhilHealth and Pag-IBIG shall be based on the actually monthly salary/compensation of an employee.

- e. CPCS Circular No. 2021-001 dated January 12, 2022, on the grant of YEB and cash gift provides the percentage of YEB and cash gift that an employee shall be entitled to depending on the length of their service.
  - f. DBM Budget Circular Nos. 2023-2 and 2017-4 provide that Service Recognition Incentive (SRI) and Productivity Enhancement Incentive (PEI) shall be granted to government employees who are in service as of November 30 of the current year and have rendered at least four (4) months of service by that date, including paid leave.
  - g. DBM Budget Circular No. 2024-1 dated April 4, 2024, states that the Uniform/Clothing Allowance shall be granted to government employees who are in service and would render at least six (6) months of service within the fiscal year, including paid leave.
  - h. CPCS Circular No. 2021-007 dated January 12, 2022, provides that employees who have rendered less than four (4) months of service from July 1 of the previous year to May 15 of the current year, or are no longer in service as of May 15, are not entitled to the mid-year bonus (MYB).
- 18.2. Meanwhile, COA Circular No. 2012-003 dated October 29, 2012, provides updated guidelines to prevent and disallow irregular, unnecessary, excessive, extravagant, and unconscionable expenditures. It defines irregular expenditures as those made without following established laws, rules, regulations, or accepted practices, including disbursements not in line with prescribed usage and discipline.
- 18.3. Finally, Section 103 of Presidential Decree No. 1445 states that any use of government funds or property in violation of laws or regulations shall be the personal liability of the official or employee directly responsible.
- 18.4. For the period October 2023 to June 2024, the Audit Team observed that CAAP had paid a total of P0.795 million to a resigned employee representing basic monthly salary, PERA, government share in the GSIS, PhilHealth, and Pag-IBIG, and other allowances, benefits, and incentives authorized under the CPCS. Of the said amount, the resigned employee was only entitled to P63,765, leaving a balance of P0.731 million that CAAP needed to recover.
- 18.5. The employee had resigned effective September 30, 2023, per his resignation letter dated August 30, 2023, yet CAAP continued to credit P0.553 million for salary and PERA until June 2024, contrary to the above-mentioned provisions.
- 18.6. Additionally, P76,340 in government share to GSIS, PhilHealth, and Pag-IBIG were remitted. The Mid-Year Bonus (MYB) of P66,551 was also paid, despite the CPCS Circular clearly stating that those not in service by May 15, 2024, or with less than four months of service were ineligible. Similarly, the full Year-End Bonus (YEB) and cash gift amounting to P67,121 were released, although only P59,015 (YEB) and P4,750 (cash gift) were due. The SRI and PEI of P20,000 and P5,000, respectively, were also granted, despite the employee

not being in service as of November 2023, contrary to DBM guidelines. The grant and payment of the clothing allowance for CY 2024, amounting to P7,000, were inconsistent with the DBM Budget Circular, which states that the clothing allowance shall be granted only to those already in the government service and who would render services for at least six months in a particular fiscal year.

- 18.7. The said employee was dropped from the payroll register only on July 23, 2024.
- 18.8. The HRMD argued that they were not duly informed of the resignation of the subject employee and that they were only made aware of this issue when the former employee's supervisor contacted the HRMD to ask why the employee was still receiving compensation when he had already resigned from his post. Based on the records presented, the HRMD received the employee's resignation letter only on August 15, 2024, almost a year after the supposed effectivity of the employee's resignation. While the concerned department might have erred in timely informing the HRMD of the resignation of the concerned employee, the HRMD, nevertheless, should have timely detected his absence and, subsequently, prevented the irregular disbursement of funds.
- 18.9. Based on the existing process of the HRMD, the HRMD printed the DTRs of employees and released them to the focal persons per office for the verification and approval of the concerned employee and their respective immediate supervisor. If there were corrections with the DTRs, the employee submits documents to support his or her time entries. The HRMD then verifies the attachments, corrects the entries in the DTR, and prints the final DTR for approval of both the employee and his or her immediate supervisor. The approved DTRs should then form the basis for the payment of salaries, allowances, benefits, and incentives, whenever appropriate. In case an employee fails to submit a signed DTR, the Timekeeping Unit of the HRMD shall inform the Payroll Unit through the Notice of Payroll Changes form, which shall then be the basis for the latter to remove an employee from the payroll register.
- 18.10. This issue could have been avoided if the HRMD had been diligent in performing its processes. We noted that despite the absence of an approved DTR, the Timekeeping Unit did not issue the necessary Notice of Payroll Changes to the Payroll Unit. Likewise, we observed that no reconciliation was in place to check the accuracy of payees between the payroll register, the approved DTR, and the report from the biometric system of the HRMD. The HRMD only utilized its existing biometrics system to generate the DTRs of employees when it could be utilized as a form of control in the payroll process, as it is less susceptible to errors, manipulation, and collusion.
- 18.11. Altogether, the laxity of HRMD in the implementation of its processes and the lack of reconciliation between the DTRs, the report of its biometrics system, and the payroll register resulted in the irregular disbursements of government funds amounting to P0.731 million as clearly defined in COA Circular No. 2012-003.

- 18.12. **We recommended, and Management agreed to:**
- a. **Direct the HRMD in CAAP-HO to:**
    - i. **Revisit and enhance the payroll process to include controls such as sign-offs or certifications to ensure the strict implementation of the issuance of the Notice of Payroll Changes. Likewise, the HRMD to implement a reconciliation process between the DTRs and the payroll register;**
    - ii. **Submit to the Audit Team a report detailing the actions taken to rectify the issue and its plans on how it would recover the amount in question; and**
    - iii. **Submit an explanation/justification to the Audit Team as to why the payments in the total amount of P0.731 million should not be disallowed in audit.**
  - b. **Require the head of each service/department/division of CAAP to timely inform the HRMD in case of the separation/resignation of an employee.**
- 18.13. The HRMD commented that the untimely notice from the Air Traffic Service (ATS) regarding the resignation of the concerned employee hindered their ability to properly reconcile and validate the employee's attendance record, which led to the non-issuance of the Notice of Payroll Changes. Nonetheless, HRMD committed to comply with the recommendations.
- 18.14. They likewise apprised the Audit Team that a demand letter for P453,287 had already been issued to the erring employee. A reply was received on May 26, 2025, in which the employee expressed willingness to return the amount wrongfully disbursed to him.
- 18.15. While it is recognized that the Air Traffic Service (ATS) experienced a delay in notifying the HRMD of the resignation of one of its personnel, it is to be emphasized that the HRMD could have easily detected the issue had there been a reconciliation in place to determine the accuracy of payees in the payroll register, with approved DTRs for the period and/or a report from its biometrics system.
- 18.16. On another note, we observed that the demand letter dated November 6, 2024, issued by the Enforcement and Legal Service (ELS), reflected only an amount of P453,287 demanded from the resigned employee, which is significantly different from the disallowable amount of P0.731 million computed by the Audit Team. In this regard, we requested the breakdown of the P453,287 computed by the HRMD, along with other information or the basis used to arrive at that amount.

**19. Disbursements were not supported with complete documentation contrary to PD No. 1445, COA Circular No. 2012-001, and CAAP's Petty Cash Fund policy.**

- 19.1. This is a reiteration of our observations from CYs 2022 to 2023 Annual Audit Reports (AARs), with updated information.
- 19.2. Section 4(6) of PD No. 1445 mandates complete documentation for claims against government funds. COA Circular No. 2012-001 and CAAP's Policy outline the required documents for replenishing the Petty Cash Fund.
- 19.3. Despite the Chief Accountant's certification that the supporting documents are complete and the amount claimed is proper, audits revealed that disbursements from the PCF lacked the necessary supporting documents, contrary to the guidelines set by COA Circular No. 2012-001.
- 19.4. Moreover, COA Circular No. 2012-001 requires that petty cash disbursements be supported with a certificate of inspection and acceptance. Accordingly, the Inspection Officer/Committee must certify that the items have been inspected, while the end-user must certify their acceptance.
- 19.5. We noted that most petty cash procurements lacked the required certificates of inspection and acceptance. In some cases, End-User Certificates of Acceptance were attached. Upon review, we observed that the certification wording indicates that the Inspection Committee certifies the delivery was inspected and found the items in accordance with the approved Purchase Requests (PRs), while the end-user certifies the acceptance based on the invoices. Further review revealed that the end-user certified both the acceptance and the inspection. The end-user properly certified the acceptance; however, the inspection must be certified by the Inspection Committee.
- 19.6. The AD stated that the Inspection Officer (IO) signed Sales Invoices (SIs) as proof of inspection, but they only signed and dated them without writing their names or confirming if the purchases were complete or complied with the specifications in the PRs. This lack of detail did not provide the detailed information that a proper certificate of inspection provides.
- 19.7. Moreover, we noted that some procured goods were not presented to the IOs for inspection. The Petty Cash Custodians (PCCs) explained that they were unaware that goods procured through petty cash require inspection by an IO and the preparation and submission of a certificate of inspection and acceptance.
- 19.8. We also noted that most service procurements, such as notarial, parking, postage, courier, toll, Zoom subscriptions, etc., lacked approved PRs. The PCCs explained that they assumed approved PRs were only required for goods.
- 19.9. The incomplete documentation attached to the vouchers to support the cash advance and replenishment contradicted the abovementioned provisions. Incomplete supporting documents cast doubt on the legality, existence, and

validity of the transactions. On the other hand, sufficient and relevant documentation gives the approvers adequate details to ensure that a transaction is reasonable and accurate.

**19.10. We reiterated our prior years' recommendations that Management direct the Chief Accountant to:**

- a. Ensure that complete supporting documents, as prescribed under COA Circular No. 2012-001 and CAAP Memorandum dated August 8, 2023, are attached to the vouchers;**
- b. Submit to the Audit Team the lacking supporting documents; and**
- c. Provide the Accountable Officers with a checklist of required documents to support different types of transactions.**

**19.11. We also recommended that Management instruct the Technical Inspection and Acceptance Committee (TIAC), along with the relevant offices and personnel, to:**

- d. Consider adopting the standardized Inspection and Acceptance Report in place of the certificates of inspection and acceptance for petty cash procurements to ensure simplicity and uniformity;**
- e. Review the inspection and acceptance process, including the roles and responsibilities of the Inspection Officer (IO) and the output reports required; and**
- f. Properly document the reviewed procedure and disseminate it to all concerned personnel and to the Audit Team.**

19.12. The AD commented that they had used the list of documentary requirements as stated in COA Circular No. 2012-001 since the issuance of COA Circular No. 2024-004, suspending COA Circular No. 2023-004. However, the CAAP Memorandum dated 8 August 2023, adopting the COA Circular No. 2023-004, had not yet been suspended, rescinded, or amended. Nevertheless, the Accounting Division would ensure the submission of documentary requirements in accordance with existing policies, rules, and regulations.

19.13. The AD had coordinated with PCCs regarding the lacking supporting documents, and these would be submitted to the Audit Team immediately.

19.14. The Chief of the Finance Department prepared a draft Memorandum to inform PCCs of their responsibilities. A copy of which would be provided to the Commission on Audit upon issuance.

19.15. The Management, through the TIAC, acknowledged the Audit Team's recommendation.

- 19.16. The Management issued a Memorandum dated March 27, 2025, requesting each Service to nominate their respective representatives for the reconstitution of the TIAC.
- 19.17. With the ongoing finalization of the Administrative and Finance Service's processes related to the ISO Certification, the Supply Division is revisiting the process for the delivery and acceptance of goods, which includes the inspection by TIAC. Once finalized and approved, a copy would be disseminated as recommended.
- 19.18. The audit found that the lack of supporting documents in the disbursement vouchers, like purchase requests and canvass summaries, was required by both the suspended COA Circular 2023-004 and older policies (COA Circular No. 2012-001 and CAAP's Petty Cash Fund Policy). Therefore, the deficiencies could not solely be attributed to the suspended circular, and adherence to all existing rules was necessary for proper disbursements.
- 20. Disallowances and charges amounting to P7.195 million in CAAP-HO, which have become final and executory, 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.**
- 20.1. This is a reiteration of our observation from CYs 2019 to 2023 AARs, with updated information.
- 20.2. 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.
- 20.3. Audit disclosed that as of December 31, 2024, receivables arising from disallowances and charges at CAAP-HO, which have been rendered final and executory, amounting to P7.195 million, remained unsettled. Of this amount, P5.131 million pertained to disallowances where Appeal Memoranda/petitions for review were filed with this Commission after an NFD was issued.
- 20.4. The Audit Team observed that CAAP-HO did not collect any amount from the aforementioned receivables for the CY 2024. Further, we observed that the Accounting Division did not initiate the withholding of salaries of persons' liable for the NDs who were still connected with CAAP, nor did CAAP-HO issue demand letters or take other appropriate legal remedies/actions that CAAP-HO might avail of, despite repeated recommendations from the Audit Team, as contained in prior Audit Reports.
- 20.5. In a letter dated June 4, 2024, the Director General of CAAP apprised this Office that the CAAP-HO Accounting Division would 1) issue a memorandum requiring all employees with outstanding disallowances to settle their accountabilities; and 2) prepare, in coordination with the Enforcement and Legal Service (ELS), the necessary demand letters to be issued against those

with outstanding disallowances. However, to this date, no memorandum or any demand letters have been issued to that effect.

- 20.6. The laxity of Management in enforcing the settlement or recovery of the disallowances and charges is contrary to the provisions of the aforementioned COA circular. Moreover, the non-settlement of these receivables deprived CAAP of additional funds it could use to further accomplish its mandate.
  - 20.7. Lastly, we reminded Management that any payment of salaries or any money due to persons liable in violation of the issued COEs is disallowable in audit, as stated in the COEs.
  - 20.8. **We reiterated our previous years' recommendations, with modifications, and Management agreed to direct:**
    - a. **The 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 in accordance with the COA Order of Execution; and**
    - b. **The Chief, ELS, to initiate and exhaust all legal means to collect/recover the disallowances and charges by sending demand letters, filing administrative/criminal actions in case of unjustified refusal to settle their liabilities, and/or other appropriate legal actions.**
- 21. Non-reconciliation and inadequate monitoring of taxes withheld vis-à-vis taxes remitted resulted in the untimely remittances of various withholding taxes amounting to P19.596 million, unremitted withholding taxes as of year-end amounting to P3.215 million and unaccounted balance of the Due to BIR account as of December 31, 2024 amounting to P2.043 million, thus exposing CAAP to unnecessary penalties and interests.**
- 21.1. This is a reiteration of our observations from CYs 2021 to 2023 AARs, with updated information.
  - 21.2. 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.
  - 21.3. 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.

- 21.4. Audit of the Due to BIR account revealed that out of P331.865 million taxes withheld from December 2023 to November 2024, only P312.520 million were remitted to the BIR within the prescribed period. Meanwhile, P19.596 million were filed and remitted to the BIR beyond the deadline. Further, the Audit Team observed that a total of P3.215 million taxes withheld during the same period were neither filed nor remitted is contrary to the above-mentioned guidelines. Details are shown in Table 24.

**Table 24. Summary of Remittances of Taxes Withheld for December 2023-November 2024**

Withholding Taxes on	Taxes Withheld	Withholding Taxes		
		Remitted within the prescribed period	Remitted beyond the prescribed period	Unremitted withholding taxes
Compensation	P 141,165,985	P 123,043,619	P 15,800,067	P 2,322,299
GMP – VAT and Percentage Tax	131,883,427	131,883,427	0	0
Expanded	42,617,914	37,929,647	3,796,002	892,265
Final	16,197,549	16,197,549	0	0
	<b>P 331,864,875</b>	<b>P 309,054,242</b>	<b>P 19,596,069</b>	<b>P 3,214,564</b>

- 21.5. Out of the total P19.596 million withholding taxes remitted beyond the prescribed period, P9.699 million pertained to the taxes withheld from clothing allowance paid in March 2024 and the Compensation and Position Classification System (CPCS) salary differential paid in August 2024, which was remitted by CAAP only in January 2025. In addition, withholding taxes amounting to P6.101 million that were set up under Accounts Payable in December 2023 were remitted between February and April 2024, following the payment of the related payables. Furthermore, P3.796 million withholding taxes, due in October 2024, were remitted only in November 2024.
- 21.6. Meanwhile, the Audit Team noted that a significant portion of the unremitted balance of P3.215 million represented withholding taxes from the compensation of CAAP officers and employees.
- 21.7. Upon verification, it was observed that from May to September 2024, the Accounting Division had been deducting P0.761 million monthly from the amounts due for remittance to the BIR, and P370,012 in October 2024, amounting to P4.172 million. Additionally, the Audit Team noted an over-remittance of P3.489 million in April 2024, for which no supporting documents or breakdown were provided to facilitate validation.
- 21.8. According to the Chief Accountant, the monthly deductions were intended to offset an alleged one-time advance remittance of withholding taxes previously made to the BIR. However, upon request, the Accounting Division was unable to provide any monitoring schedule or Journal Entry Voucher (JEV) to substantiate this claim.
- 21.9. The late remittance of withholding taxes has been a recurring issue for CAAP since CY 2021. Audit noted that one of the primary reasons for the delay was the unavailability of supporting documents required for validation by the Accountant responsible for filing and remittance. As a result, affected transactions were excluded from the remittance submitted before the deadline,

thus exposing CAAP to unnecessary penalties and interests as provided under the above regulations.

- 21.10. As of December 31, 2024, the balance of the Due to BIR account amounted to P136.845 million. Considering that withholding taxes were remitted to the BIR monthly, this balance should represent the amount due for remittance to the BIR in January 2025.
- 21.11. However, out of the recorded balance, the Audit Team was able to account for the following: (a) P121.886 million taxes withheld in December 2024, due for remittance in January 2025; (b) P9.699 million taxes withheld for the CY 2024 clothing allowance and salary differential, also remitted in January 2025; and (c) P3.215 million prior years' unremitted taxes. This left an unaccounted balance of P2.045 million.
- 21.12. The Audit Team requested the Accounting Division to provide a detailed breakdown of the P2.045 million variance in the account. However, no such breakdown was provided. This issue had been recurring, with no significant reconciliation efforts undertaken by the Accounting Division to resolve the discrepancy.
- 21.13. In August 2024, Management designated personnel outside the Accounting Division to monitor the accurate and timely withholding and remittance of taxes. However, the audit noted that the designated personnel neither verified the completeness and accuracy of the filed amounts nor viewed the recorded withholding taxes under the Due to BIR account. Instead, she relied solely on data provided by the Accounting and Checking Divisions, without performing independent validation or reconciliation.
- 21.14. Moreover, AC III was not able to reconcile its Due to BIR Payable account balance with that of the records of the BIR, although it substantially complied with the remittance of withholding of taxes from salaries, wages and claims of suppliers/creditors to the Bureau of Internal Revenue, in consonance with Sections 58(A) and 114(C) of the National Internal Revenue Code of 1997; thus, there was doubt as to the accuracy of the payable account balance. This resulted in unremitted balance of P1.307 million. Inquiry disclosed that there was an ongoing reconciliation of the accounts.
- 21.15. While review procedures were in place before disbursement and recording, the review of the accuracy of remittances was not conducted carefully and judiciously. We emphasized that withholding taxes were remitted to the BIR every month and the month-end balance of the Due to BIR account should reflect the amount to be remitted the following month. Hence, it was relatively easy to notice whether the amount of remittance in a corresponding month was equal to the amount of taxes withheld in the prior month.
- 21.16. The recurring issues and observed gaps in the timely and accurate filing and remittance of withholding taxes highlighted opportunities to strengthen the internal controls and enhance awareness within the Accounting Division and Finance Department of the potential implications of non-compliance with tax laws.

- 21.17. In this regard, we drew attention to Section 251 of the NIRC which states that any person who fails to withhold and remit taxes, as required, shall be liable to a penalty equal to the total amount of the tax not withheld or not accounted for and remitted. Also, Section 103 of PD No. 1445, known as the Government Auditing Code of the Philippines explicitly provides that:

*Section 103. General liability for unlawful expenditures. Expenditures of government funds or uses of government property in violation of law or regulations shall be a personal liability of the official or employee found to be directly responsible therefor.*

- 21.18. **We reiterated our previous years' recommendations, with modification, and Management agreed to instruct the Department Manager III, Finance Department, and the Chief Accountant to:**

- a. **Judiciously review the filing and remittance of withholding taxes and ensure that all applicable taxes are withheld and remitted within the deadline prescribed by the BIR;**
- b. **Facilitate the immediate remittance of the unremitted withholding taxes amounting to P3.215 million to avoid incurring additional penalties and surcharges;**
- c. **Submit the complete and valid supporting documents to substantiate the over-remittance of P3.489 million in April 2024, as well as the deductions in remittances in the total amount of P4.172 million, including an explanation/ justification as to why these documents were not readily available during the audit;**
- d. **Provide proper guidance and orientation to the personnel designated to monitor the accurate and timely withholding and remittance of taxes. Ensure that her responsibilities include verifying the completeness and accuracy of tax remittances, including cross-checking the "Due to BIR" account against supporting documents; and**

- 21.19. **We further recommended that CAAP HO and AC III exert diligent efforts to reconcile records to determine the nature and necessary details of the P3.352 million unaccounted 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.**

- 22. Taxes on the compensation of various officers and employees in CAAP-HO for CY 2023, amounting to P8.048 million, were not properly withheld during the period it was due but were instead collected in a staggered manner starting CY 2024, leaving uncollected and unrecorded receivables of P3.316 million as of December 31, 2024.**
- 22.1. Section 83(B) of the NIRC, as amended, provides that every employer required to withhold taxes from employee wages shall submit to the Commissioner, on or before January 31 of the following year, an annual information return listing each employee's total compensation income and the total taxes withheld during the year.
- 22.2. In January 2024, CAAP filed the Annual Information Return of Income Taxes Withheld on Compensation (BIR Form 1604-C) for CY 2023 and identified a tax deficiency caused by errors in the withholding tax computations made by previous accountants. Instead of immediately collecting the unwithheld taxes of P8.048 million from the affected employees, CAAP opted to shoulder the deficiency and remitted the balance to the BIR in February 2024. This decision was based on a memorandum signed by the former Director General (DG), which allowed CAAP to recover the unwithheld amounts from the employees until December 31, 2024. In an interview, the Chief Accountant mentioned that the former DG issued another memorandum extending the staggered collection period until December 2025; however, a copy of said memorandum was not provided to the Audit Team for review.
- 22.3. As of December 31, 2024, CAAP had uncollected tax deficiencies from officers and employees amounting to P3.315 million, which had not been recognized in the books as of December 31, 2024, resulting in the understatement of the Due from Officers and Employees account by the same amount.
- 22.4. The unwithheld amount should have been collected promptly, as these taxes were personal liability and responsibility of the employees to the government. CAAP's role as the withholding agent was to ensure the accurate withholding and timely remittance of these taxes to the BIR. As such, using public funds to shoulder these tax deficiencies was not within CAAP's mandate and deprived CAAP of the additional funds that could have been used to provide better quality services to the public.
- 22.5. We recommended, and Management agreed to direct the Department Manager III, Finance Department, and the Chief Accountant to record the outstanding receivables under the Due from Officers and Employees account and ensure the immediate collection of these receivables to prevent potential loss of government funds.**

- 23. GSIS, PhilHealth, and Pag-IBIG premiums/contributions and/or loan amortizations amounting to P12.246 million were not remitted within the prescribed deadline contrary to existing laws, rules, and regulations, thereby exposing CAAP officers and employees to potential penalties.**
- 23.1. This is a reiteration of our observation in the CY 2023 Annual Audit Report (AAR), with updated information.
- 23.2. Sections 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.
- 23.3. 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 members' records by submitting the Agency Remittance Advice (ARA) and the Electronic Remittance File (ERF) every first 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.
- 23.4. 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 10<sup>th</sup> 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 their newly hired and/or separated employees within 30 calendar days from assumption of office and/or separation.
- 23.5. 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 10<sup>th</sup> to the 14<sup>th</sup> day of the month following the applicable month.
- 23.6. On the other hand, COA Circular No. 2020-002 dated January 28, 2020 regarding the adoption of the revised chart of accounts of government corporations, defines *Due to GSIS*, *Due to PhilHealth* and *Due to Pag-IBIG* 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.
- 23.7. Based on the foregoing guidelines, all GSIS, PhilHealth, and Pag-IBIG premiums deducted from the salaries of CAAP employees, along with the corresponding government share, shall be remitted to their respective agencies on or before the prescribed day following the month the contribution

applies. Hence, the balances in the *Due to GSIS*, *Due to PhilHealth*, and *Due to Pag-IBIG* accounts as of December 31, 2024, should only pertain to withheld premiums/contributions and loan payments from employees and CAAP's corresponding share for December 2024. Any excess in these accounts might indicate unremitted contributions or erroneous recording of premiums requiring reconciliations and adjustments.

- 23.8. Comparison between the balances of the *Due to GSIS*, *Due to PhilHealth*, and *Due to Pag-IBIG* accounts as of December 31, 2024, vis-à-vis the amount withheld from employees and CAAP's share on these contributions disclosed a discrepancy with an aggregate amount of P12.246 million. Details are shown in Table 25.

**Table 25. Premiums/Contributions for December 2024 vs General Ledger**

	Balance, as of December 31, 2024	Premiums/ Contributions for December, 2024	Unremitted Premiums/ Contributions
GSIS	P 58,282,431	P 53,008,677	P 5,273,754
PhilHealth	20,392,761	15,122,260	5,270,501
Pag-IBIG	6,535,327	4,833,246	1,702,081
	<b>P 85,210,519</b>	<b>P 72,964,183</b>	<b>P 12,246,336</b>

- 23.9. The balance of P12.246 million represented CAAP-HO and ACs V, VI, and XII's unremitted premiums or contributions to GSIS, PhilHealth, and Pag-IBIG, contrary to the aforementioned guidelines.
- 23.10. A closer examination of CAAP's payroll registers and remittance process disclosed the following factors contributing to the unremitted balances to the GSIS, PhilHealth, and Pag-IBIG:

- a. In CAAP-HO, the Human Resource Management Division (HRMD) did not timely update employee payroll information, resulting in under-remittances of GSIS premiums/contributions/loan payments. GSIS, through the eBilling and Collection System (eBCS), validated the accuracy of remittances by generating Electronic Billing Files (EBFs), which contain the required contribution that each member of a particular agency should remit. These were compared against the agency-prepared ERFs, which reflect the amount of premiums/contributions/loan payments withheld by an agency for each member. The agency may only proceed with the remittance of premiums/contributions/loan payments for members with matching EBFs and ERFs. The EBF utilizes member data in the eBCS, while the ERFs are based on the agency's duly approved monthly payroll register. Hence, timely updates of employee records in the GSIS system are crucial to prevent discrepancies between the two files, which might lead to over- or under-remittances. We reviewed the discrepancies between the two files and observed that some arose from the premiums of recently separated or transferred employees. These balances should not have been part of the discrepancy had HRMD promptly reported the changes in their employment status. This further highlights the importance of maintaining up-to-date

GSIS membership records. Further, erroneous inputs in the ERFs resulted in discrepancies, which led to under-remittances to GSIS.

- b. The Audit Team noted that PhilHealth premiums of 38 employees in CAAP-HO who either assumed office or transferred to the Head Office between January 2022 and July 2024 were not remitted due to delays in reporting their information to PhilHealth. The HRMD admitted that they were unable to submit the PMRFs in a timely manner to PhilHealth due to the heavy workload of the personnel in charge. As a result, unremitted premiums of the 38 employees amounted to P0.887 million as of December 31, 2024.

It is crucial that CAAP ensures the timely remittances of its employees' premiums/contributions as PhilHealth requires *sufficient regularity of premium contributions or payment of at least six months contributions preceding the required three months contributions within the 12-month period prior to the first day of availment of benefits.*

The Audit Team in CAAP-HO learned of a recent incident where an employee was unable to claim PhilHealth benefits due to the absence of a Certificate of PhilHealth Contribution from CAAP, as the contributions deducted from his salary were not duly remitted.

- c. There was no established process in CAAP-HO for remitting premiums/contributions deducted from payrolls outside CAAP's regular monthly payroll. The Audit Team noted that Pag-IBIG premiums deducted in the previous months through separate payrolls were only remitted after several months. The Accounting Division personnel claimed they were not timely informed of the additional premiums/contributions to be remitted to the concerned agency. However, since these payrolls were processed by both the Accounting Division and HRMD, neither division could deny responsibility for the delayed remittances.
- d. Scrutiny of the subsidiary ledgers revealed outstanding balances in the Due to GSIS, Due to PhilHealth, and Due to Pag-IBIG accounts of CAAP-HO since 2017. Upon inquiry, the Accounting Division acknowledged these balances and committed to reconciling records with HRMD to determine whether these amounts should be remitted to the respective agencies or adjusted in the books of accounts.
- e. In AC V, the Audit Team observed that the GSIS and PhilHealth premiums corresponding to salary differentials under the Revised CPCS Salary Step Adjustment Scheme were not remitted. Inquiry with the concerned personnel of AC V disclosed that the non-remittance of GSIS premiums for CPCS II differential was due to unreconciled balances for remittance between CAAP's records and GSIS' system. Meanwhile, the personnel of concerned airports also

averred that the PhilHealth premiums related to CPCS II differentials remained unremitted, as they prioritized GSIS premiums over PhilHealth contributions.

- f. Similarly, in AC VI, the unremitted premiums primarily came from salary adjustments (promotions, salary differentials, and retirements) that were not fully reconciled with GSIS. This was the result of deficiencies in updating membership profiles and the absence of complete HR records.
  - g. In AC XII, based on information collected with GSIS – Butuan and Surigao Branches, unpaid premiums and loans amounted to P366,895 from October 2007 to October 2024. Inquiry with the personnel responsible for GSIS deductions and remittances, along with the concerned OIC-HRMO, revealed that these deficiencies have been an ongoing issue for the AC, as the majority of the identified deficiencies dated back to CYs 2007-2014. Moreover, it was observed that the AC XII Management did not designate personnel responsible for all the mandatory deductions, their payments/remittances, and posting requirements, making it difficult to establish accountability for the tasks performed.
- 23.11. We stressed the importance of the timely remittance of mandatory contributions and loan amortizations, as well as the prompt reporting of changes in employee information, given the financial and legal implications of non-compliance. In addition to interests, surcharges, or penalties, the IRRs of RA Nos. 8291, 7875, and 9679 clearly specify the penalties for employers, officers, and employees who fail or refuse to comply with their provisions. For GSIS, violators may be fined between P5,000.00 and P20,000.00, or imprisoned for six years and one day to 12 years, or both. For PhilHealth, the penalty ranges from P5,000.00 to P10,000.00, multiplied by the total number of employees. For Pag-IBIG, non-compliance is punishable by a fine of not less than, but not more than twice the amount involved, or imprisonment of up to six years, or both, in addition to any civil liabilities or obligations.
- 23.12. In addition, GSIS had been sending demand letters to CAAP-HO regarding unpaid employee premiums/contributions. In a letter dated June 13, 2024, addressed to the CAAP Director General, GSIS stated that CAAP-HO owed P21.616 million, P7.416 million in compulsory premiums, and P14.200 million in interest.
- 23.13. Per inquiry with the Accounting Division of CAAP-HO, the unpaid premiums in recent years resulted from outdated member information due to CAAP's revised compensation scheme implemented under the Compensation and Position Classification System starting November 8, 2022. The Accounting Division is coordinating with the HRMD to gradually reconcile and remit portions of the unpaid premiums; however, the reconciliation process must be expedited to prevent further accumulation of interest.

- 23.14. Lastly, we reminded Management that under Section 105 (2) of Presidential Decree No. 1445, *every officer accountable for government funds shall be liable for all losses resulting from the unlawful deposit, use, or application thereof and for all losses attributable to negligence in the keeping of the funds.* Given the severity of the abovementioned consequences, compliance with the provisions of the GSIS, Pag-IBIG, and PhilHealth laws is pivotal and should be given utmost importance by both the Accounting Division and the HRMD.
- 23.15. We reiterated our prior year’s recommendations, with modification, and Management agreed to instruct:**
- a. **The Chief, Human Resource Management Division (HRMD), to immediately update all records with the GSIS, PhilHealth, and Pag-IBIG and to ensure that any changes or new employee information are reported to these Corporations promptly;**
  - b. **The Accounting Division to remit all contributions that were properly deducted from the employees’ payroll;**
  - c. **The Chief Accountant, Area Centers (ACs) V, VI, and XII Accountants, in coordination with the HRMD, to expedite the reconciliation of records to facilitate the remittance of the unremitted balances to the GSIS, PhilHealth, and Pag-IBIG;**
  - d. **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 amounts withheld in the immediate preceding month to support each payment. In case of discrepancy, both offices are to provide a valid and acceptable justification, along with a detailed schedule identifying the specific line items causing the variance;**
  - e. **AC XII Manager, to designate personnel who shall be responsible for overseeing all mandatory contributions, their deductions, remittances /payments, and posting requirements, and shall ensure the accuracy, timely remittance, and proper posting of all deducted premium contributions and loan payments to GSIS; and**
  - f. **Comply with the laws and regulations on prompt payments of premiums and loan payments to the different government agencies to avoid penalties.**
- 23.16. Management of CAAP-HO commented that it had already made official representation with the GSIS to reconcile all records. The first meeting was conducted on March 26, 2025.
- 23.17. They raised that the HRMD had initiated the creation of an Employee Information and Movement Monitoring file, which would serve as the reference for updates/deductions, as well as prompt the Agency Authorized Officers (AAO) to update the information in the electronic portal of either GSIS,

PhilHealth, or Pag-IBIG. A permanent personnel member had been assigned to update this file on a monthly basis.

- 23.18. In addition, the monthly certification of the remittances would be included in the ongoing AFS Procedural Manual on Preparation of Monthly Payroll for Regular Employees.
  - 23.19. Meanwhile, the Chief Accountant committed to remitting employee contributions in a timely manner and in accordance with pertinent laws and guidelines.
  - 23.20. In AC V, Management commented that the regular premiums for GSIS, Pag-IBIG, and PhilHealth are being remitted monthly; however, reconciliation of differential premiums (GSIS and PhilHealth) for the aforesaid salary increment/ adjustments had taken time due to manpower constraints at Area HRM and Accounting Section.
  - 23.21. In addition, the HRM Section in AC V, together with the Accounting Section, committed to prioritizing the reconciliation of the records to facilitate the immediate remittance to concerned agencies.
  - 23.22. In AC VI, Management commented that the balances appearing to be unremitted balance of the Due to GSIS account pertains to unreconciled balances from prior years, which they could no longer reconcile due to a lack of supporting documents. They claimed that current withholdings were promptly remitted.
  - 23.23. In AC XII, Management remarked that a personnel member had already been designated to oversee GSIS contributions, deductions, remittances/payments, and posting requirements. Moreover, they have requested a copy of the service records of AC XII personnel from the CAAP-HO and likewise initiated a request for the reconciliation of service records with the GSIS. They committed to complying with the audit recommendations.
- 24. CAAP did not deduct GSIS loan amortizations from employees' compensation, which is not in accordance with the Implementing Rules and Regulations of Republic Act No. 8291, otherwise known as the Government Service Insurance System Act of 1997.**
- 24.1. Sections 14.2 and 14.3 of the Implementing Rules and Regulations (IRR) of RA No. 8291 require government agencies to deduct from employees' monthly compensation the loan amortizations, premium payments, and other amounts due to the GSIS, and to remit these withheld amounts to the GSIS within the first 10 days of the month following the applicable period.
  - 24.2. Section 15 of the same IRR provides that a government agency shall incur a two per cent simple interest per month for every month of delay, or a portion thereof, in remitting monthly premium contributions and other amounts due to the GSIS, with the interest accruing at the end of the month following the due month.

- 24.3. GSIS Memorandum Circular No. 27, series of 2021, outlines the revised guidelines for AAOs, Electronic Remittance File (ERF) Handlers, and Liaison Officers (LOs), emphasizing that AAOs, as the primary certifying officers for member-employees' loan applications, must ensure that: (1) monthly amortizations are deducted from the member-borrower's salary and remitted to the GSIS; and (2) in cases of separation from service, the final payment of benefits to the member-borrower shall only be made after obtaining GSIS clearance.
- 24.4. In a letter dated August 13, 2024, GSIS informed CAAP that 23 employees from CAAP-Head Office who availed of various types of GSIS loans have defaulted on their loan amortization due to the following reasons:
- The total arrears or unpaid amortizations exceed six monthly amortizations; or
  - The loan's payment period had already lapsed. Hence, the remaining unpaid balance is deemed due and demandable.
- 24.5. The letter states that the unpaid amortizations of the 23 CAAP employees amounted to P6.146 million. GSIS likewise requested CAAP, through its AAO and ERF Handlers, to deduct the monthly amortization/s from the borrowers' salaries and remit them to GSIS in accordance with the aforementioned GSIS Memorandum Circular.
- 24.6. Audit disclosed that the HRMD did not deduct the loan payments from the salaries of the employees identified in the GSIS letters. The AAO and payroll personnel could not provide a direct explanation for the arrears or defaults as they claim that the loans mentioned in the GSIS letter might have originated in previous years. No subsequent communication with GSIS was observed to inquire about the details of the loans.
- 24.7. Moreover, the AAO did not maintain a monitoring file for loan amortization payments of CAAP-Head Office employees, which raises questions as to how the AAO ensures that all monthly amortizations of member-borrowers are duly deducted from their monthly salaries as mandated in the GSIS Memorandum Circular.
- 24.8. Further, a comparison between deductions for GSIS loan amortizations and remittances for CY 2024 disclosed the following:
- Six employees who availed of either policy or emergency loans had a loan remittance in the total amount of P11,229, even though there were no corresponding loan deductions from their payroll.
  - Three employees had payroll deductions of P1,700 for their policy loans, but these amounts were not remitted to GSIS.
  - Three employees included in the GSIS billing, who should have been subject to salary deductions for their loans, had neither deductions nor corresponding remittances.

- 24.9. We reminded Management that it is the responsibility of the AAO and the HRMD to ensure that monthly loan amortizations are deducted from the member's salary. We urged both the HRMD and the Accounting Division to be meticulous when processing and remitting payroll deductions, considering that non-deduction and non-remittance of both premiums and loan amortizations involved monetary and legal consequences. In addition, it is unjust for employees with payroll deductions to be charged interest or penalties due to delayed or non-remittance. Lastly, non-remittance affected the employees' loan privileges and separation or retirement benefits from the GSIS.
- 24.10. We recommended, and Management agreed to direct the HRMD and the Accounting Division to:**
- a. Review and reconcile payroll records of employees with outstanding GSIS loan deductions, and coordinate with the GSIS to ensure that all previous deductions are accurately applied to the respective loan accounts;**
  - b. Coordinate with affected employees to deduct their outstanding loan amortizations from their payroll and ensure accurate remittance to GSIS, in compliance with pertinent laws, rules, and regulations;**
  - c. Direct the AAO to monitor all outstanding GSIS loans and to affix his/her signature on the payroll register and remittance advice to signify that review was conducted as to the accuracy of deductions; and**
  - d. Provide a written explanation for any erroneous loan amortization deductions and remittances, and submit a detailed plan to address the identified deficiencies.**
- 24.11. Management commented that it had initiated reconciliation with GSIS, beginning with a meeting on March 26, 2025. A small team from HR and Accounting was assigned to the task, and HRMD planned to contact employees with active loans to confirm amortizations for proper remittance. However, Management had yet to provide an explanation for the erroneous loan deductions.
- 25. Absence of Certificate(s) of Title (COT) or, if available, not registered under CAAP's name raised questions about the validity of CAAP's ownership of several lots.**
- 25.1. This is a reiteration of our observations from CYs 2021 to 2023, with updated information.
  - 25.2. Paragraph 2, Section 39 of PD No. 1445 states that when a government agency purchases property, the Commission must ensure that the title is properly registered in the government's name or provide other acceptable proof that the government holds the title to the property.

- 25.3. Moreover, Chapter 12, Section 85 of RA No. 9497 (CAAP Act of 2008) states that any real property owned by the national government and used by the former Air Transportation Office must be transferred and titled in the name of the Civil Aviation Authority of the Philippines (CAAP).
- 25.4. Land account had a consolidated balance of P35.699 billion per books of accounts of CAAP as of December 31, 2024. However, the audit of the account disclosed the following:

- a. CAAP-HO currently holds lots with an area of 33,438 square meters, valued at P331.573 million, which are not titled or registered in CAAP's name. Information gathered indicates that CAAP Management, through the Real Estate Titling Task Force (RETTF), had initiated coordination with the Manila International Airport Authority (MIAA) by transmitting CAAP's final draft of the new Memorandum of Agreement (MOA) and holding a series of meetings on the matter. Further inquiry revealed that MIAA had expressed its willingness to proceed with the transfer of the aforementioned properties.

The final draft of the new MOA had been transmitted to the Office of the Government Corporate Counsel (OGCC) for legal review, while MIAA is set to present the same to its Board of Directors. According to the RETTF, the results of both the OGCC and MIAA reviews would determine the next course of action.

With regard to the Tagaytay Radar Site 1, the Asset Management Division (AMD) previously sent request letters to the Department of Environment and Natural Resources (DENR) Region IV-A, the Tagaytay City Assessor's Office, and the Registry of Deeds, to obtain subdivision plans, lot data computations, and technical descriptions to support the Aerodrome Development and Management Service (ADMS) in their evaluation. Inquiry revealed the following: (1) the transfer and issuance of title or annotation, as required under the Deed of Absolute Sale, have not yet been processed; (2) claims are currently being processed by the Site Acquisition Committee, along with efforts to clarify discrepancies between the records of two lots with the Registry of Deeds; and (3) additional letters are expected to be sent to concerned agencies to gather further information on the said lots.

- b. AC I purchased a parcel of land with an area of 66,793 square meters which is a portion of lot number 853 of cadastral survey of Laoag, cadastral case number 14, L.R.C. Cadastral Record No. 1137, bearing OTC No. 021-0-2699 located at Barangay Calayab, Laoag City, for P13.359 million sometime in 2007 and a 1,053-square-meter parcel of land, Lot No. 893-A. This lot is part of Lot No. 853 from the Cadastral Survey of Laoag City, located in Barangay Balacad.

In both cases, Management was unable to properly monitor and secure the corresponding TCTs. The Area Center did not enforce the terms of the Deed of Absolute Sale for the property in Barangay Calayab, Laoag

City, nor did it follow the necessary registration procedures for the purchased lot in Barangay Balacad, Laoag City.

- c. 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. Parcels of land in AC 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. As previously noted in our audit observations for AC X, only 17 out of 369 accounted land properties were titled/registered in the name of CAAP. The remaining 352 were 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 CAAP. Moreover, the completeness and valuation of the land account are not accurate due to the outdated appraisal and incomplete inventory and transfer of all land properties of AC X.
  - f. AC XII's land properties remained unregistered under CAAP's name, as they have not been covered by Transfer Certificates of Title (TCT) and any other legal documents, such as evidence or proof of ownership. A detailed review of the Report on the Status of Real Estate Titling for every airport under AC XII, as submitted by the Real Estate Titling–Technical Working Group (RET-TWG), showed that properties were (i) awaiting issuance of title from Registry of Deeds, (ii) awaiting approval or issuance of requirements from Community Environment and Natural Resources Office (CENRO), Certification of Status of Lots on Isolated Survey from LRA, and subdivision plans, and (iii) with ownership issues. Additionally, of the 798,215 sq. m. reported by RET-TWG, 105,193 sq.m. had been titled, but no corresponding documentation had been provided for our verification. Furthermore, the land account reported in the financial statements is still based on the appraisal/valuation conducted by an Appraisal Company in CY 2010.
- 25.5. The absence of Certificates of Title to substantiate CAAP's ownership of several lots raised concerns about the validity of the properties recorded in its books of accounts.

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

**a. CAAP-HO to:**

- i. Direct the RETTF, ADMS, AMD, and ELS to coordinate closely with MIAA and the OGCC to expedite the approval of the MOA and facilitate the transfer of properties covered under the 2015 Partition Agreement, specifically those formerly covered by Certificates of Title for lots used at Civil Aviation Training Center 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 the status of the Manila Radar lot with MIAA and initiate the transfer of the corresponding titles;**
  - ii. Instruct the ADMS and AMD to resolve the discrepancies in the property records and promptly process the transfer of the Certificate of Title for the Tagaytay Radar – Site 1 lot in favor of CAAP.**
- b. ACs I, II, X, and XII to expedite proper legal remedies for the immediate transfer of titles of lots in favor of CAAP and secure the same to support the claim of ownership;**
  - c. ACs V and XII to require the submission of all the necessary documentation for the processing of the titles of the lands, as well as necessary reports, i.e., Report on the Status of Real Estate Titling;**
  - d. AC I to strictly monitor the enforcement of the terms and conditions contained in any binding agreements concerning the Agency's land holdings to ensure the desired outcomes are achieved;**
  - e. AC II RET-TWG to comply with the duties and functions laid out in Area Order No. AC2-2023-005;**
  - f. ACs V and XII to secure and submit copies of legal documents and/or land title certificates;**
  - g. ACs X and XII to make representation with CAAP HO to request the conduct of land appraisal/revaluation to accurately reflect current market values in the financial statements; and**
  - h. AC XII to request any relevant documents from the Asset Management Division of the HO to support the recorded Land account of AC XII, and update the supporting schedule of the Land account, ensuring that it includes all necessary information for ascertaining the ownership and accurate recording of the account.**

**25.7. Management of CAAP HO, through AMD, committed that, in the event of a favorable outcome of the MOA, they would facilitate the annotation of subject lots to support the issuance of a title registered in favor of CAAP. Management**

also commented that they would engage the services of a Real Estate Consultant, as well as create a Real Estate Office under the Corporate Planning Office to coordinate with relevant government agencies or stakeholders on property-related matters.

- 25.8. Management of AC I informed the Audit Team that there was a series of meetings conducted with the assigned lawyer of the Office of the Government Corporate Counsel (OGCC); however, after thorough discussion of the case, Management was advised to exert efforts to coordinate with the owners for the transfer of properties.
  - 25.9. Management of AC II commented that approval and release of budget, as well as collection and tracing of records relative to lots, were ongoing.
  - 25.10. No documents related to AC V were provided as the work remained pending due to the resignation of the personnel assigned to the task.
  - 25.11. Management of AC X designated three personnel as the TWG to assist and facilitate the land titling procedures. The proposed timeline for CY 2024-2025 on land titling/processing was furnished to COA. Further, they mentioned that they had already requested assistance from CAAP HO with regard to the conduct of land appraisal.
  - 25.12. Management of AC XII stated that one-time cleansing was ongoing, including reconciliation of the PE- Land account. A detailed review with the Technical Working Group would be conducted, and supporting documents would be requested from CAAP HO's Asset Management Division.
  - 25.13. The Audit Team noted that AC I Management successfully secured the original land title from the owners and revoked the Attorney-In-Fact's SPA due to incapacity. The SPA of the owners' new authorized representative has not been received.
- 26. The prolonged non-disposal of unserviceable properties, with a carrying amount of at least P6.717 million, led to further deterioration and decline in value, while also incurring additional costs for storage, maintenance, and security.**
- 26.1. This is a reiteration of our observations from the CY 2023 Annual Audit Report (AAR), with updated information.
  - 26.2. COA-DBM Joint Circular No. 2024-01 dated January 30, 2024, also known as the Revised Manual on the Disposal of Government Properties, provides that systematic and timely disposal proceedings are essential to avoid further deterioration of the properties and consequent depreciation in their value. It would also ensure the elimination of the continuing storage costs of the government, relieve accountable employees from unnecessary or excess accountability, and effectively decongest government offices.

- 26.3. Also, 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.
- 26.4. Verification of documents revealed that several unserviceable properties of CAAP Head Office (HO), Area Centers (ACs) II, and V with acquisition costs of P116.696 million and carrying value of P6.717 million, remained undisposed as of December 31, 2024. Details are presented in Table 26.

**Table 26. List of Undisposed Unserviceable Properties**

Location	Cost	Accumulated	Carrying Value
		Depreciation	
		Amount	
HO	P 103,254,505	P 97,954,144	P 5,300,361
AC II	5,694,049	5,088,467	605,582
AC V	7,747,473	6,936,794	810,679
<b>P 116,696,027</b>		<b>P 109,979,405</b>	<b>P 6,716,622</b>

- 26.5. In addition to the unserviceable properties of AC II listed in Table 26 that remained undisposed, the Audit Team also noted 68 other unserviceable properties pending disposal. Of these, only 18 items had recorded acquisition costs of P6.134 million, while the remaining items had no acquisition cost or carrying value based on the supporting records.
- 26.6. Likewise, the Audit Team noted an aggregate amount of P246,500 in AC V that also remained undisposed. For these items, only the acquisition costs were reflected, with no corresponding carrying values.
- 26.7. On the other hand, the acquisition cost and carrying value of unserviceable properties of ACs XI and XII could not be established due to non-submission or incomplete property records and documentation.
- 26.8. The Audit Team emphasized that the prolonged non-disposal of unserviceable properties increases the risk of further deterioration, reducing their potential recoverable value. In addition, retaining these assets resulted in additional costs for storage, maintenance, and security.
- 26.9. **We reiterated our prior years' recommendations, with modification, that Management:**
- a. **Instruct the Disposal Committee of CAAP HO, ACs II, V, and XII to promptly initiate disposal procedures for unserviceable properties in accordance with the provisions of COA-DBM Joint Circular No. 2024-01 and COA Circular No. 89-296 to avoid further deterioration, preserve asset value, and help decongest storage areas; and**

- b. **Direct the AD of CAAP HO, ACs II, V, and XII to secure complete supporting documents related to the unserviceable properties and disposal activities to properly substantiate the corresponding journal entries.**
- c. **Direct AC XI to:**
  - i. **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;**
  - ii. **Determine the appraised value of all unserviceable properties and waste materials using the COA Manual on Appraisal of Government Properties;**
  - iii. **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**
  - iv. **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.**

26.10. The CAAP-HO Management commented that they had initiated the disposal of helio aircraft through a donation to the Philippine State College of Aeronautics, with the draft deed of donation currently under OGCC review. The Supply Division and Property Disposal Committee were monitoring the process and ensuring compliance with it. Additionally, the IIRUP for the items under the Aircraft and Airport Ground Equipment account had been submitted to the Accounting Division for cost, depreciation, and net book value. Meanwhile, the Accounting Division (AD) committed to (1) securing documents for unserviceable properties and related disposal activities, (2) coordinating with relevant departments to gather supporting records, and (3) ensuring journal entries were properly substantiated. AD would also develop standardized guidelines for recording unserviceable and disposed properties.

26.11. Management of AC II commented that they were given a directive to finalize the one-time cleansing of PEs until March 2025, including the disposal of the unserviceable properties.

26.12. Management of AC V likewise commented that the Airport had already taken the initiative to gather all items identified for disposal. Preparation and completion of necessary documents for the proper disposal of PEs was ongoing.

- 26.13. However, Management of AC XI was unable to provide the IIRUP as of December 31, 2024. They also commented that (1) appraisal of unserviceable properties was already conducted, (2) certifications were not yet issued due to ongoing reconciliation of records, and (3) requested the presence of COA Auditors for ocular inspection of these properties.
- 26.14. Management of AC XII, particularly the Surigao Airport Acting Manager and the Acting Area Supply Officer assured the Team that all recommendations would be implemented and as far as the Supply Unit is concerned, effective January 2025, the audit recommendations were complied with.
- 26.15. As regards AC XI, the Audit Team noted the following: (1) IIRUP was not yet submitted; (2) the appraisal conducted was only for unserviceable batteries, not the unserviceable properties as a whole; (3) non-issuance of certifications; and (4) the COA Auditors witnessed the said ocular inspection, pertaining to that specific activity and not the full disposal process.
- 27. Negative slippage of more than 15 per cent was noted in six projects as of December 31, 2024, which is not in accordance with the guidelines outlined in the Government Procurement Policy Board (GPPB) Circular No. 03-2019, resulting in prolonged delays in the implementation of the infrastructure projects.**
- 27.1. Item No. 4.2 of the GPPB Circular No. 03-2019 dated March 18, 2019, provides calibrated actions in response to delays in the implementation of infrastructure projects. It provides guidelines of actions to be taken and documents to be required from the contractor, such as a “catch-up” program in case Negative Slippage of five (5) per cent or more is incurred.
- 27.2. Moreover, said Circular states that in the event a project incurs Negative Slippage of 15 per cent and above, the Implementing unit shall initiate termination of the contract or take over of the work by administration or contract in accordance with Section 53.3 of the 2016 revised IRR of RA No. 9184 and the Revised Guidelines for the Implementation of Infrastructure Projects by Administration.
- 27.3. Review of the Status Report of projects as of December 31, 2024, disclosed six projects at different stages of completion that incurred negative slippage of more than 15 per cent. The details are presented in Table 27.

**Table 27. List of projects with more than 15% Negative Slippage**

Item No.	Project	Contract Amount	Project Status as of December 31, 2024
1	Basco Airport Development Project	138,632,025.76 Revised: 141,082,962.73 (due to VO #1)	Ongoing construction Actual accomplishment: 63.11% Planned accomplishment: 100% Slippage: (-) 36.89%
2	General Santos Airport Development Project CY 2021	91,254,747.35 Revised: 91,885,131.84 (due to VO)	Suspended. VO #2 for concurrence of Contractor; Actual accomplishment: 78.82% Planned accomplishment: 98.67% Slippage: (-) 19.85%
3	Improvement of Airport Facilities in Calbayog Airport	67,297,993.93	Ongoing construction. Actual accomplishment: 57.60% Planned accomplishment: 100% Slippage: (-) 42.40%  As of June 01, 2022, liquidated damages are being imposed with P51,865.78 for every day of delay. Waiting for the final decision regarding the termination of the project contract.
4	Tuguegarao Airport Development Project	57,929,649.77	Ongoing construction. Actual accomplishment: 64.88% Planned accomplishment: 100.00% Slippage: (-)35.12%
5	Improvement of Passenger Terminal Building at Davao International Airport	46,981,074.37	Ongoing construction; Actual Accomplishment: 65.74% Planned Accomplishment: 99.92% Slippage: (-) 34.18%
6	Rehab of Passenger Terminal Building, construction of powerhouse, VPA, and access road at M'lang Airport.	24,189,614.84	Ongoing construction; Actual accomplishment: 26.34% Planned accomplishment: 89.91% Slippage: (-) 63.57%

27.4. In response to the noted observation, Management commented that to ensure the prompt completion of the projects, they would establish clear timelines, assign dedicated project managers to oversee the progress, and implement regular monitoring and reporting mechanisms to track developments.

27.5. As the Implementing Arm of CAAP for DOTr- downloaded projects, ADMS is expected to strictly adhere to the provisions of GPPB Circular No. 03-2019. Compliance with these guidelines is essential to ensure the timely and effective implementation of airport infrastructure projects and to facilitate proper monitoring of contractor performance. Failure to enforce such measures might result in continued project delays and inefficiencies.

- 27.6. **We recommended, and Management agreed to require the Aerodrome Development and Management Service (ADMS) to strictly monitor the negative slippage and immediately issue the appropriate warning letters to the concerned contractors. In addition, require the contractors to submit the necessary documents in accordance with GPPB Circular No. 03-2019.**
- 27.7. ADMS commented that they consistently exercised due diligence in supervising all DOTr-downloaded projects by issuing necessary warnings and notices to contractors experiencing significant delays.
- 27.8. They further informed the Audit Team that some delayed projects had resumed activities after the approval of the relevant variation orders. Moreover, the concerned contractors were given clear deadlines to implement their respective catch-up plans.
- 28. Suspension of two projects with contract costs of P47.019 million awarded in CY 2022 due to poor procurement planning deprived the public of the potential benefits that would have resulted from their timely completion.**
- 28.1. Section 17.6 of the 2016 RIRR of RA No. 9184 states that “No bidding and award of contract for Infrastructure Projects shall be made unless the detailed engineering investigations, surveys and designs, for the project have been sufficiently carried out and duly approved in accordance with the standards and specifications prescribed by the HoPE concerned or his duly authorized representative.”
- 28.2. Review of Status Report of DOTr projects as of December 31, 2024, disclosed that two projects awarded in CY 2022 for Catbalogan Airport remain suspended, with zero per cent accomplishment. These projects were being implemented by the Air Navigation Services (ANS) and were suspended due to their dependency on the availability of the Powerhouse and Control Tower, which are part of another project under the ADMS. Audit noted that the ongoing ADMS project began its implementation only in CY 2024, while the two suspended projects with contract costs of P47.019 million were awarded in CY 2022. Further review disclosed that the two projects’ target completion periods are 120 and 180 days.
- 28.3. On June 4, 2025, in response to the issued Audit Observation Memorandum (AOM), the ANS informed the Audit Team that the procurement activities for the three projects commenced in CY 2021. Review of documents disclosed that the opening of bids for the ADMS project was conducted in December 2021 while the opening of bids for the two ANS projects took place in January 2022. The two ANS projects were successfully awarded to the winning bidders, but the bidding for the ADMS project was declared a failure and was rescheduled in CY 2023.
- 28.4. Had proper planning and detailed engineering been conducted prior to the bidding and award of the projects, they could have determined the feasibility of the project and the requirements necessary for its prompt implementation.

Resources such as workforce, time, and money could have been allotted to priority projects that would ensure prompt delivery of public services that would provide a safe and secure travel experience to the riding public.

- 28.5. We recommended, and Management agreed to direct the Air Navigation Services to ensure that all future infrastructure projects undergo thorough and timely detailed engineering, and are implemented only when all preconditions are met to avoid similar delays.**
- 28.6. During the Exit Conference, Management stated that moving forward, they considered combining civil works and the supply and/or installation of necessary equipment into a single project. Another option was to proceed with the procurement of the dependent project, but without awarding the contract until the related project had been completed.
- 29. Delays in the preparation and execution of contracts, as well as in meeting the posting requirements on PhilGEPS, contrary to Section 37 of RA No. 9184, thus depriving the intended users of the timely benefits from the projects.**
- 29.1. Section 37.2.2 of the 2016 Revised Implementing Rules and Regulations (RIRR) of the Republic Act (RA) No. 9184 provides that the Procuring Entity shall enter into a contract with the winning bidder within a 10-day period provided that all the documentary requirements are complied with.
- 29.2. In the same RIRR, the BAC, through the Secretariat, shall post, within three (3) calendar days (CDs) from its issuance, the Notice of Award in the PhilGEPS, the website of the Procuring Entity, if any, and any conspicuous place in the premises of the Procuring Entity (Section 37.1.6). Moreover, the Procuring Entity, through the BAC Secretariat, shall post a copy of the Notice to Proceed and the approved contract in the PhilGEPS and the website of the Procuring Entity, if any, within 15 CDs from the issuance of the Notice to Proceed (Section 37.4.2).
- 29.3. A review of the contracts and the attached supporting documents for four and nine contracts relative to projects procured in Area Centers (ACs) II and VI, respectively, disclosed significant delays in the execution of the contracts from the time the winning bidders received the corresponding NOAs, i.e., delays ranging from 1 to 33 CDs were incurred in AC VI.
- 29.4. Procurement activities could have been monitored and addressed by preparing the Procurement Monitoring Report (PMR) by the Bids and Awards Committee. Moreover, it was stated that while the PMR was being prepared in AC II, the subject projects were not included in the report; thus, the major procurement activities for these four projects were not properly monitored. Also, the Audit Team was verbally informed that the PMR was being prepared not by the BAC Secretariat, but by the Technical Working Group (TWG), and the same is being submitted directly for approval to the HoPE.
- 29.5. Furthermore, in AC VI, 14 contracts incurred delays in the posting of the Notice of Award (NOA) on PhilGEPS, ranging from 4 to 94 CDs. Also, delays ranging

from 6 to 58 CDs were incurred in posting the Notice to Proceed (NTP) and the contracts for the 12 projects. According to the Area BAC, these delays were primarily caused by outdated equipment, limited availability of signatories, and insufficient manpower. While the Audit Team understands the challenges of the Area BAC, it was also observed that the NOA, NTP, and contracts were often posted on the same day. This practice undermines the transparency objectives of PhilGEPS posting requirements.

- 29.6. It should be emphasized that adherence to the timeline set for each procurement activity is essential so as not to defer the implementation of the project, and the same would be readily available for use by the intended constituents on the targeted completion date.
- 29.7. **We recommended that Management ensure the timely execution of government contracts within 10 calendar days from receipt of the Notice of Award, in compliance with Section 37 of RA No. 9184. We further recommended the following:**
- a. **For AC II: Instruct the BAC Secretariat and BAC Chairman, through the preparation of Procurement Monitoring Report, to monitor the compliance of the Agency with the provisions of RA No. 9184 insofar as the conduct of major procurement activities for each government project within the periods prescribed is concerned; and**
  - b. **For AC VI: Require all BAC Secretariat to post in the PhilGEPS the Notice of Award within three CDs from its issuance, and the Notice to Proceed and the approved contract within 15 CDs from the issuance of the NTP.**
- 29.8. AC II Management commented that they were not able to notice the delay in the execution of the contracts. Nonetheless, they assured that the recommendation would be complied with for all contracts of the Area Center. Moreover, the PMR will be regularly accomplished to monitor the procurement activities of each project.
- 29.9. AC VI Management commented that the delays were attributed to the differences in the schedules of BAC members (most members are on the shifting/running schedule); lack of full-time manpower that would oversee the processes and procurement activities; members tasks, as part of the BAC are all in addition to their existing duties and responsibilities; and defective equipment. The BAC is committed to strict observance and to abiding by the procurement timeline. To prevent delays, the CAAP AC VI Management and the BAC had designated two (2) full time office assistants that would oversee the BAC Office in addition to the two (2) Plantilla item Secretariats; maximized the availability of the on-the-job trainees on the copying and filing of processed projects; and allotted Tuesday as BAC day (to sign, review, and if possible, all procurement activities to fall on Tuesdays) in consideration to the members who are in the running/shifting schedules.
- 29.10. Management also proposed training programs on procurements, to educate and enhance the skills and knowledge of the members.

**30. AC XI did not enforce their rights to require the contractor to repair structural defects during the defects liability period, contrary to Section 62.2.2 of the 2016 Revised Implementing Rules and Regulations (IRR) of RA No. 9184.**

- 30.1. Section 62.2.2 of the 2016 Revised IRR of R.A. No. 9184 states that one year from project completion up to final acceptance or the defects liability period, the contractor shall undertake the repair works, at his own expense, of any damage to the infrastructure on account of the use of materials of inferior quality, within 90 days from the time the HoPE had issued an order to undertake repair. The defects liability period shall be covered by the Performance Security of the contractor required in Section 39.1 of this IRR, which shall guarantee that the contractor performs his responsibilities stated in the immediately preceding Section. If the contractor fails to comply with its obligations under Section 62.2.2.1 of this IRR, the Procuring Entity shall forfeit its performance security, subject its property(ies) to attachment or garnishment proceedings, and perpetually disqualify it from participating in any competitive bidding. All payables of the GoP in his favor shall be offset to recover the costs.
- 30.2. Section 6.2 of the same revised IRR explicitly mandates that, “the total retention money shall be due for release upon final acceptance of the works.”
- 30.3. A review of the contract and bidding documents revealed that AC XI did not enforce the forfeiture of performance security nor the “defects liability period” during the implementation of the infrastructure project at General Santos International Airport. This oversight occurred because the Certificate of Final Acceptance was issued on June 21, 2024, the same date as the Certificate of Completion, contrary to Section 62.2.2 of the 2016 RIRR of R.A. No. 9184.
- 30.4. Interview with the project inspector disclosed that before issuing the Certificate of Final Acceptance on June 21, 2024, no noticeable defects were identified during their inspection, which served as the basis for their decision. Therefore, any defects might have arisen only after the project was completed and formally accepted by AC XI. A review of the documents further confirms that no defects were observed by the project inspector, supporting the issuance of the Certificate of Final Acceptance, as there was no demand or order from the Airport Manager of AC XI requiring the contractor to perform repair works.
- 30.5. The Audit Team, however, requested the services of a COA Technical Audit Analyst (TAA) to perform a technical review and assess the project's status. The assigned COA TAA inspected the project on October 28, 2024. In his Technical Evaluation Report (TER) dated November 11, 2024, the COA TAA noted the presence of visible watermarks and cracks on the ceiling, which a roof leak might have caused.
- 30.6. Upon further examination of the contract and pertinent documents, it was revealed that a retention amount of P206,091 was established and secured by a bond, and the same amount was released to the contractor on December 27, 2024.
- 30.7. Since the Airport Manager of AC XI had already issued the Certificate of Final Acceptance and had not issued any demand or directive for the contractor to

perform repair works, AC XI could no longer enforce the "defects liability period". In light of these circumstances, the contractor was no longer obligated to rectify any defects identified after the project's final acceptance, as stipulated in the Performance Security/Surety Bond provided by the winning bidder, which states that the liability of the surety company under the bond would expire on co-terminus upon final acceptance of the project and the surety does not assume any responsibility for any liability incurred or created after said date.

- 30.8. The Performance Security could have ensured that the winning bidder fulfilled their responsibilities outlined in the contract. Through this security, the winning bidder or contractor is also required to perform repair works if the procuring entity discovers any defects within the timeframe specified by the IRR. Had AC XI considered the one-year defects liability period and not issued the Certificate of Final Acceptance, it could have obligated or ordered the contractor to address the structural defects identified after final acceptance. Consequently, AC XI would have been able to withhold payments due to the contractor until the necessary repairs for defects occurring during the designated one-year defects liability period were completed.
- 30.9. We recommended, and Management agreed to strictly require the end-user(s) of the project, along with the project inspector, to meticulously examine or inspect the projects for compliance and identify any structural defects during the "defects liability period". This would ensure that the contractor addresses any observed defects, as stipulated in the Performance Security, before issuing the Certificate of Final Acceptance and releasing the retention money to the contractor, in accordance with Sections 6.2 and 62.2.2 of the revised IRR of RA No. 9184.**
- 30.10. While ensuring that the contractor remains fully accountable for addressing the defects, the General Santos International Airport Manager had carried out corrective measures without incurring additional cost to CAAP. Additionally, it was indicated in the Management's letter reply to the AOM that during a phone call on January 28, 2025, the contractor confirmed plans to visit the site and committed to addressing the defects identified in the audit observation.
- 30.11. The Audit Team recognizes Management's corrective actions and the contractor's commitment to addressing the identified defects. The Audit Team would continue to monitor Management's compliance with the audit recommendation, including the proper inspection of projects and adherence to required procedures before issuing the Certificate of Final Acceptance and releasing the retention money.

31. **AC XI did not require the contractor to provide a Warranty Security, contrary to the provisions of the 2016 Revised IRR of RA No. 9184, thus undermining the purpose of the law in ensuring that the contractor fulfills his responsibilities and putting the government's interests at a disadvantage as there were structural defects observed after finally accepting the project.**
- 31.1. Section 62.2.3.3 of the 2016 RIRR of RA No. 9184 provides a schedule as reference for the form of warranty security, as well as its required amount, to ensure that the contractor would perform his responsibilities in case where structural defects/failures arise due to faults attributable to improper construction, use of inferior quality/substandard materials, and any violation of the contract plans and specifications, within the prescribed period.
- 31.2. In our review of the bidding documents for the Construction of the CAAP Security and Intelligence Service (CSIS) Office located at the General Santos International Airport, with a contract cost of P2.061 million, we noted that the contractor did not post a warranty security. Furthermore, the Audit Team verified that while the General Conditions of the Contract included the requirement for posting a warranty security, the specific duration of the warranty was not detailed in the Special Conditions of the Contract (SCC).
- 31.3. In an interview with the BAC Secretary, she stated that they had misconstrued the requirement, believing that only the procurement of goods necessitated a warranty security. However, she assured the Audit Team that for the calendar year 2025, they would require winning bidders to provide a warranty security upon the issuance of the Certificate of Final Acceptance, as mandated by law.
- 31.4. In case of Structural Defects/Failure occurring during the applicable warranty period provided in Section 62.2.3.2 hereof, the Procuring Entity shall undertake the necessary restoration or reconstruction works and shall be entitled to full reimbursement by the parties found to be liable for expenses incurred therein upon demand, without prejudice to the filing of appropriate administrative, civil, and/or criminal charges against the responsible persons as well as the forfeiture of warranty securities posted in favor of the Procuring Entity.
- 31.5. The lack of warranty security prevented AC XI from obligating the contractor to perform repairs for structural defects after the project was finally accepted. Furthermore, since the retention money had already been released, the contractor could no longer be compelled to undertake the necessary repair works, thereby putting the government's interests at a disadvantage.
- 31.6. **We recommended, and Management agreed, that for future procurement of infrastructure projects, the contractor(s) must strictly provide a Warranty Security. Clearly state in the Specific Condition of the Contract such a requirement to ensure that the contractor posts the warranty after the Certificate of Final Acceptance is issued.**
- 31.7. In their letter reply, CAAP AC XI BAC explained that they did not include a separate warranty security provision in their bidding documents, mistakenly believing it applied only to the delivery of goods. Instead, they relied solely on the performance bond of winning bidders for infrastructure projects as sufficient

security against defects during the Defects Liability Period, which extends for one year after project completion.

- 31.8. Nonetheless, Management assured that beginning in CY 2025, the BAC would explicitly incorporate the warranty security requirement into bidding documents to ensure compliance and strengthen safeguards for future projects.
  - 31.9. The Audit Team would monitor its implementation to verify that the provision is consistently enforced.
- 32. The Authority's submitted Gender and Development (GAD) Database/Sex-Disaggregated Data (SDD) lacked sufficient gender statistics, undermining the effectiveness of the gender analysis and the relevance of the identified gender issues in the GAD Plan and Budget (GPB).**
- 32.1. PCW-NEDA-DBM Joint Circular No. 2022-01 prescribes the guidelines for the Preparation of Annual GAD Plans and Budgets and Accomplishment Reports to implement the Magna Carta of Women. Section 4.4 of the Joint Circular requires agencies to institutionalize the GAD Database/SDD through the generation and analysis of GAD information as inputs or bases for planning, budgeting, programming, and policy formulation.
  - 32.2. 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 the conduct of gender analysis within the organization and identify GAD issues affecting clients in relation to the attainment of its mandate.
  - 32.3. Review of the submitted GAD Database/SDD revealed that it was sourced directly from the Human Resource Management Division (HRMD) Employees' Portal and included data on only four categories: Sex (Male or Female), Civil Status (Married, Single, Widowed, Annulled Marriage), Solo Parent, and Persons with Disability.
  - 32.4. The limited coverage of the GAD Database/SDD undermined the effectiveness of the gender analysis as it lacked the data necessary to identify gender gaps, assess the needs of different gender groups, and formulate responsive GAD programs and policies. It casts doubt on the alignment of identified gender issues and corresponding strategies in the GAD Plan and Budget (GPB) with actual gender-based needs and disparities.
  - 32.5. Additionally, the Audit Team learned that a survey, which included broader and more inclusive categories such as gender identity, age, religion, number of children, and others, was conducted among CAAP clients and employees to support the institutionalization of the GAD Database/SDD. This survey could have provided valuable insights for the gender analysis; however, the GFPS Secretariat informed the Audit Team that the data had not yet been consolidated. This not only indicates potential gaps in data management and coordination within the GFPS, compromising the reliability of the gender issues identified in the GPB, but also raises concerns about the Authority's capacity

to monitor and evaluate gender mainstreaming efforts and ensure that GAD programs and policies are responsive to actual needs.

- 32.6. Despite repeated follow-ups, the Audit Team had not received the survey results, which cast doubt on the validity of the identified gender issues in the GPB and the accuracy of the reported accomplishments regarding the institutionalization of the GAD Database/SDD.
- 32.7. We recommended, and Management agreed to:**
- a. **Direct the GFPS to consolidate and submit the results of the gender-related survey and ensure that the GAD database/SDD is enhanced to include comprehensive and relevant gender statistics to support the institutionalization of the GAD D/SDD; and**
  - b. **Strengthen the data collection, consolidation, and management mechanisms to improve the reliability of identified gender issues and the accuracy of the accomplishments.**
- 33. CAAP utilized only 67.82 per cent of its budget for GAD in CY 2024, depriving beneficiaries of the potential benefits from identified GAD Programs, Activities, and/or Projects (PAPs).**
- 33.1. This is a reiteration of our observations in the CY 2023 Annual Audit Report (AAR), with updated information.
- 33.2. Section 36.a, Chapter VI of R.A No. 9710, or the Magna Carta of Women (MCW), mandates government entities to adopt gender mainstreaming to promote women's human rights and eliminate gender discrimination. This includes integrating GAD in planning, budgeting, monitoring, and evaluation, with at least five per cent of total appropriations allocated for GAD programs.
- 33.3. For CY 2024, CAAP allocated P1.696 billion for GAD PAPs and submitted its GAD Plan and Budget (GPB) to the PCW on November 6, 2023, within the required deadline. However, as of the report date, CAAP had not received a letter of endorsement or comments from the PCW.
- 33.4. Audit of the GAD fund utilization for CY 2024 disclosed that only P1.150 billion or 67.82 per cent of the total P1.696 billion GAD Budget was used, as shown in Table 28.

**Table 28. Summary of Utilization of GAD Fund for CY 2024**

	No. of PAPs	Status of PAPs			GAD Budget	Actual Expenditures	% of Utilization
		NI	PI	FI			
Client-Focused Projects	6	0	2	4	P 11,218,828	P 9,985,648	89.01%
Organization-Focused Projects	6	0	1	5	45,982,065	57,002,784	123.97%
Attributed Programs	1	0	1	0	1,638,943,459	1,083,391,813	66.10%
	<b>13</b>	<b>0</b>	<b>4</b>	<b>9</b>	<b>P 1,696,144,352</b>	<b>P1,150,380,245</b>	<b>67.82%</b>

*Note: NI was not implemented, PI was partially implemented, and FI was fully implemented.*

- 33.5. As reflected in the table, CAAP planned 13 GAD PAPs for CY 2024, of which nine were fully implemented and four were partially implemented.
- 33.6. Audit disclosed that one of the reasons for the non-implementation of identified GAD PAPs was the failed procurement of various projects, due to either the absence of bid proposals or the disqualification of suppliers/providers for submitting incomplete or invalid requirements.
- 33.7. This suggests that CAAP needs to reassess and update the technical and financial requirements indicated in the bidding documents to align with market conditions, encourage more bidders, and reduce incomplete submissions.
- 33.8. Management also cited adjustments in ongoing airport development projects as another reason for non-implementation; however, this should not prevent Management from revising the GPB or implementing additional GAD PAPs to address the gender issues identified during the year.
- 33.9. The low utilization of the GAD Budget reflects planning deficiencies and suggests that some PAPs might not have been feasible or sufficiently aligned with actual needs and implementation capacity. As a result, gender issues included in the GPB have remained unaddressed, depriving the intended beneficiaries of potential benefits from GAD PAPs.
- 33.10. We recommended, and Management agreed to:**
- a. Reassess and review the technical and financial requirements of all GAD-related projects to ensure that they are market-responsive and encourage broader participation from qualified bidders; and**
  - b. Undertake proactive measures to strengthen the implementation of GAD PAPs, including revising the GPB, as necessary, to ensure that identified gender issues are properly addressed and that intended beneficiaries fully receive the associated benefits.**

- 34. Delayed submission of the CY 2024 GAD Accomplishment Report (AR) contrary to Section V of COA Circular No. 2014-001 and Section 1.1 of PCW Memorandum Circular No. 2024-05.**
- 34.1. COA Circular No. 2014-001 dated March 18, 2014, prescribes the Revised Guidelines in the audit of Gender and Development (GAD) Funds and Activities in government agencies.
  - 34.2. Section V of the Circular mandates government entities to provide the Audit Team with a copy of the GAD Accomplishment Report within five working days after the end of January of the preceding year.
  - 34.3. Similarly, Section 1.1 of PCW Memorandum Circular No. 2024-05, which governs the submission of the FY 2024 Gender and Development (GAD) Accomplishment Report, requires government-owned and/or controlled corporations (GOCCs) to submit their consolidated FY 2024 GAD ARs to the PCW through their Gender Mainstreaming Monitoring System (GMMS) on or before February 25, 2025.
  - 34.4. Audit disclosed that CAAP submitted its GAD Accomplishment Report to the PCW beyond the prescribed deadline. Notably, the submission to PCW was made via email instead of through the PCW GMMS. Further, the GAD Accomplishment Reports were not submitted promptly to the Audit Teams of CAAP-HO and Area Centers VI and IX.
  - 34.5. According to the GFPS Secretariat, which was responsible for consolidating the AR, the delay was due to the late submission of GAD ARs from the Area Centers despite repeated follow-ups. It was also noted that the GFPS only scheduled the consolidation process on March 12, 2025, significantly past the deadline set by both the Audit Teams and PCW.
  - 34.6. **We recommended, and Management agreed to direct the GFPS to establish a clear internal timeline and enforceable deadlines for the submission of GAD ARs by the ACs to help ensure the timely consolidation and submission of the annual GAD AR to the Audit Teams and PCW in compliance with applicable regulations.**
- 35. CAAP was not able to assess and measure the functionality of its GFPS as well as the extent of the gender mainstreaming efforts of CAAP due to non-utilization of the GFPS Functionality Assessment Tool (FAT) as well as the non-administration of the enhanced Gender Mainstreaming Evaluation Framework (GMEF).**
- 35.1. PCW Memorandum Circular No. 2022-02 mandates the use of the Gender Focal Point System (GFPS) Functionality Assessment Tool to identify the GFPS's strengths and areas for improvement, including underlying causes of gaps in the performance of its mandates. It would also enable the GFPS to document its good practices on gender mainstreaming.

- 35.2. Likewise, Section 5.4 of the PCW-NEDA-DBM Joint Memorandum Circular No. 2022-01 requires agencies to administer the enhanced Gender Mainstreaming Evaluation Framework (GMEF) to periodically assess the level of the organization's gender mainstreaming efforts. It is developed to assist the GFPS members in measuring the organization's gains and successes, as well as to pinpoint the areas for improvement, considering the gender and development mainstream perspectives of the organization.
- 35.3. Audit disclosed that CAAP did not utilize the GFPS FAT nor administer the enhanced GMEF. According to the GFPS, they were coordinating with PCW to request further training, technical assistance, and proper guidance on the implementation of these tools.
- 35.4. While these efforts are acknowledged, the Audit Team emphasizes that several handbooks, toolkits, and instructional videos on the utilization of GFPS FAT and administration of GMEF are readily accessible on the PCW website. The CAAP GFPS could have proactively explored and utilized these publicly available resources in the interim while awaiting PCW's assistance.
- 35.5. We recommended, and Management agreed, to direct the GFPS to proactively explore and utilize the publicly available resources on the PCW website – such as handbooks, toolkits, and instructional videos – on the GFPS FAT and GMEF and proceed with the implementation of these tools to support the evaluation and enhancement of CAAP's gender mainstreaming initiatives.**

## **36. Compliance with Tax Laws**

- 36.1. Various observations about compliance with the National Internal Revenue Code of 1997 were noted in CY 2024, to wit:
- a. CAAP did not apply its creditable input tax to reduce its VAT obligations to the BIR in CY 2024, as discussed in Observation No. 3;
  - b. CAAP's non-reconciliation and inadequate monitoring of taxes withheld vis-à-vis taxes remitted resulted in the untimely remittances of various withholding taxes amounting to P19.596 million, unremitted withholding taxes as of year-end amounting to P3.215 million and unaccounted balance of the *Due to BIR* account as of December 31, 2024 amounting to P2.043 million, as discussed in Observation No. 21; and
  - c. Taxes on compensation of various officers and employees in CAAP-HO for CY 2023, amounting to P8.048 million were not properly withheld on the period it was due but were instead collected in a staggered manner starting CY 2024, leaving an uncollected and unrecorded receivables of P3.316 million, as discussed in Observation No. 22.

- 36.2. The details of the amounts withheld and remitted to the BIR during the year are presented in Table 29.

**Table 29. Taxes Withheld and Remitted**

Offices	Balances as of January 1, 2024 (As Restated)	Adjustments During the Year	Taxes During CY 2024		Balances as of December 31, 2024
			Tax Withheld	Tax Remitted	
Head Office	P 68,116,787	P 2,626,371	P 393,247,634	P 324,520,514	P 139,470,278
AC I	2,866,802	0	13,132,113	13,273,732	2,725,183
AC II	1,051,438	(357,810)	8,200,280	7,864,493	1,029,415
AC III	4,331,593	(3,226,750)	20,695,135	19,959,931	1,840,047
AC IV	2,374,333	(44,182)	23,636,909	20,141,210	5,825,850
AC V	1,091,041	(78,729)	17,918,004	17,004,921	1,925,395
AC VI	2,426,183	4,000	46,045,168	43,722,778	4,752,573
AC VII	2,661,001	2,790	38,098,999	36,514,293	4,248,497
AC VIII	1,311,009	62,713	12,665,780	11,720,178	2,319,324
AC IX	780,818	0	20,685,995	19,300,061	2,166,752
AC X	1,831,004	0	15,653,326	15,197,046	2,287,284
AC XI	2,712,548	0	28,824,096	28,635,084	2,901,560
AC XII	1,289,271	(269,139)	12,690,124	11,170,304	2,539,952
Total Area Centers	P 24,727,041	P (3,907,107)	P 258,245,929	P 244,504,031	P 34,561,832
<b>Total</b>	<b>P 92,843,828</b>	<b>P (1,280,736)</b>	<b>P 651,493,563</b>	<b>P 569,024,545</b>	<b>P 174,032,110</b>

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

- 37.1. 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 RA No. 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.
- 37.2. 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 RA No. 7875, as amended, respectively.

**Table 30. GSIS, Pag-IBIG, and PhilHealth Premiums/Loan Amortizations and Remittances**

Particulars	Balances as of January 1, 2024 (As Restated)		Premiums and Loan Amortization collected for CY2024		Balances as of December 31, 2024
		Adjustment(s)		Remittances	
GSIS	P 69,944,130	P (22,795,988)	P 557,161,493	P 546,111,049	P 58,198,586
Pag-IBIG	5,340,513	(117,870)	53,288,757	51,976,073	6,535,327
PhilHealth	13,635,755	(2,917,180)	81,799,544	72,142,372	20,375,747
<b>TOTAL</b>	<b>P 88,920,398</b>	<b>P (25,831,038)</b>	<b>P 692,249,794</b>	<b>P 670,229,494</b>	<b>P 85,109,660</b>

37.3. An exception, however, was noted for CAAP HO, ACs V, VI, and XII, where GSIS, PhilHealth, and Pag-IBIG premiums/contributions and/or loan amortizations amounting to P12.246 million were not remitted within the prescribed deadline. This issue was further discussed in Observation No. 23.

37.4. Further, CAAP did not deduct GSIS loan amortizations from employees' compensation, as discussed in Observation No. 24.

### 38. Enforcement of COA Audit Suspensions, Disallowances, and Charges

38.1. The total audit suspensions, disallowances, and charges found in the audit of transactions as of December 31, 2024, are summarized in Tables 31 and 32:

#### HEAD OFFICE

**Table 31. Summary of Audit Suspensions, Disallowances and Charges in the Head Office**

Particulars	Beginning Balance as of January 1, 2024	This Period January 1 to December 31, 2024		Ending Balance as of December 31, 2024
		NS/ND/NC	NSSDC	
Notice of Suspension	P 29,929,062	P 0	P 0	P 29,929,062
Notice of Disallowance	886,349,770	15,411,737	161,979,544	739,781,963
Notice of Charge	30,913	0	0	30,913
<b>TOTAL</b>	<b>P 916,309,745</b>	<b>P15,411,737</b>	<b>P 161,979,544</b>	<b>P 769,741,938</b>
<b>% of settlement</b>			<b>17.38%</b>	

38.2. The total amount of the Notices of Disallowance (ND) includes P500 million irregular disbursement paid to an Insurance Company for a single pay variable life insurance policy intended for key officers and employees. In CY 2024, an additional ND was issued for irregular disbursements related to flying pay, amounting to P15.411 million. These NDs are currently awaiting resolution by the Commission on Audit (COA) Proper, following CAAP's Petition for Review.

38.3. Several other disallowances were settled during the year, pursuant to various COA decisions issued in favor of CAAP.

## AREA CENTERS

**Table 32. Summary of Audit Suspensions, Disallowances, and Charges in Area Centers**

Particulars	Beginning Balance as of January 1, 2024	This Period January 1 to December 31, 2024		Ending Balance as of December 31, 2024
		NS/ND/NC	NSSDC	
Notice of Suspension				
AC I	P 0	P 455,202	P 455,202	P 0
AC V	1,144,134	0	170,168	973,966
AC VI	48,471	0	48,471	0
AC XII	7,539,437	0	1,921,913	5,617,524
<b>TOTAL</b>	<b>P 8,732,042</b>	<b>P 455,202</b>	<b>P 2,595,754</b>	<b>P 6,591,490</b>
<b>% of settlement</b>			<b>28.25%</b>	
Notice of Disallowance				
AC I	P 16,342,938	P 0	P 13,470,619	P 2,872,319
AC II	7,453,811	0	2,706,302	4,747,509
AC III	15,468,940	0	14,900,146	568,794
AC IV	11,676,055	0	8,738,452	2,937,603
AC V	22,315,430	0	12,931,038	9,384,392
AC VI	67,088,326	0	39,679,825	27,408,501
AC VII	41,530,411	0	27,718,026	13,812,385
AC VIII	9,100,943	0	9,012,707	88,236
AC IX	26,827,107	0	18,251,792	8,575,315
AC X	108,482,561	0	19,938,373	88,544,188
AC XI	39,010,789	0	26,763,272	12,247,517
AC XII	7,229,657	0	3,950,127	3,279,530
<b>TOTAL</b>	<b>P 372,526,968</b>	<b>P 0</b>	<b>P 198,060,679</b>	<b>P 174,466,289</b>
<b>% of settlement</b>			<b>53.17%</b>	

- 38.4. In CY 2024, the AC I Audit Team issued Notices of Suspension for Representation Expenses in the total amount of P455,202 due to a lack of supporting documents. AC I later submitted the required documents, and the corresponding NSSDCs were issued within the year. Other ACs also settled various Notices of Suspension and Disallowance, and the respective AC Audit Teams issued the related NSSDCs.