Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

DUTY FREE PHILIPPINES CORPORATION

For the Year Ended December 31, 2016

EXECUTIVE SUMMARY

Introduction

Duty Free Philippines (DFP) was established as a sector of Philippine Tourism Authority (PTA) to exclusively manage and operate the stores under Section 1.2 of Tourism Administrative Order No. 89-04 which granted the exclusive authority to PTA to operate duty free shops that would sell tax and duty free merchandise, goods and articles, among others.

Under Republic Act (RA) No. 9593, known as The Tourism Act of 2009, the DFP was reorganized into Duty Free Philippines Corporation (DFPC). This Tourism Act provided for the mandate of DFPC which shall be a body corporate to operate the duty and tax-free merchandising system in the Philippines to augment the service facilities for tourists and to generate foreign exchange and revenue for the government as established by the Department of Tourism under Executive Order (EO) No. 46. Under Sec. 93, the DFPC shall have an authorized capitalization of P500 million, which shall be fully subscribed by the national government.

Sec. 93 of RA No. 9593 also requires that a minimum of 50 per cent of the annual net profits of the DFPC shall be automatically remitted to the Office of the Secretary of the DOT to fund tourism programs and projects in lieu of the statutory remittance to the national government under RA No. 7656, 70 per cent of which shall be given to the Tourism Promotions Board (TPB).

On November 12, 2009, the Implementing Rules and Regulations (IRR) of the Tourism Act took effect upon its publication in newspapers of general circulation. However, DFP is still in transition from a sector of PTA to a corporate entity, as stated in Sec. 140 (a) of the IRR.

With the enactment of RA No. 101491, the function of developing and establishing the Compensation and Position Classification System (CPCS) which shall apply to all officers and employees of GOCCs was transferred from the DBM to Governance Committee for GOCCs (GCG). DFPC has submitted its Reorganization Plan to GCG for review and approval. On March 22, 2016, EO No. 203 was approved by the President of the Philippines and made effective a CPCS and General Index of Occupational Services for the GOCC sector.

The DFPC is headed by Mr. Vicente Pelagio A. Angala, as the Chief Operating Officer and is governed by a Board of Directors. As of December 31, 2016, DFPC has total workforce of 1,282 personnel composed of one appointee, one coterminous, 916 regular, 7 temporaries, and 357 job order status.

Its operating stores are located at the Fiesta Mall, Paranaque City, NAIA Terminals, Pasay City, Mactan International Airport, Arrival and Departure Outlets, Cebu Waterfront Hotel, Davao International Airport Arrival and Visitor's Center Outlets, Laoag International Airport, Newport Mall Resorts World, Pasay City, Kalibo International Airport, Departure and Arrival Area, Clark International Airport, Pre-departure and Arrival Area, Pampanga, Iloilo International Airport, Market Mall Store, Palawan, Laguindingan International Airport, Cagayan de Oro City, and Silay International Airport, Bacolod City.

Scope of Audit

The audit covered the examination, on a test basis, of the accounts, transactions and operations of DFPC for CY 2016 in accordance with Philippine Financial Reporting Standards (PFRS). It was also aimed at expressing an opinion on the fairness of presentation of DFPC's financial position, results of operations and cash flows in accordance with Philippine Standards in Auditing (PSA) and at determining its compliance with laws, rules and regulations.

Operational Highlights

For Calendar Year (CY) 2016, DFPC fulfilled its mandate under RA No. 9593 of generating foreign exchange and revenue for the government as follows:

CY 2016 Summary of Contributions to Various Government Agencies

Government Agency	Particulars	Amount
Manila International Airport Authority (MIAA)	Concession Privilege Fee	570,626,522
Bureau of Customs (BOC)	Sin Tax / Value Added Tax	554,068,298
Department of Tourism (DOT)	Mandatory Contribution per RA 9593	170,678,363
BIR, DTI, BOC & NBI	Taxes on fringe benefits, rentals, interest, warehousing bonds, import processing fees and other fees, filing fee for refund/issuance of tax credit	6,503,874
Clark International Airport Corporation	Concession Privilege Fee	6,551,120
Civil Aviation Authority of the Philippines	Concession Privilege Fee	48,000
Total		**1,308,476,177**

Financial Highlights (In Philippine Peso)

Shown below are the comparative financial position and financial performance of DFPC for CYs 2016 and 2015.

Comparative Financial Position

Particulars	2016	2015 As restated	Increase (Decrease)
Assets	2,829,568,826	3,038,988,790	(209,419,964)
Liabilities	2,254,283,120	2,489,051,528	(234,768,408)
Equity	575,285,706	549,937,262	25,348,444

Comparative Financial Performance

Particulars	2016	2015 As restated	Increase / (Decrease)
Gross Profit	2,100,409,086	1,996,837,227	103,571,859
Other Income	28,701,314	53,701,661	(25,000,347)
Total Operating Income	2,129,110,400	2,050,538,888	78,571,512
Operating Expenses	1,964,897,632	1,852,569,442	112,328,190
Net Income	164,212,768	197,969,446	(33,756,678)

Budget and Actual Expenses

Particulars	Per COB	Actual	Variance
Personal Services	471,915,000	470,368,825	1,546,175
Maintenance and Other Operating Expenses	1,516,044,000	1,492,151,856	23,892,144
Capital Outlay	389,962,000	108,931,000	281,031,000
Total	2,377,921,000	2,071,451,681	306,469,319

Independent Auditor's Report on the Financial Statements

The auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of DFPC for the year ended December 31, 2016.

Significant Audit Observations and Recommendations

The significant audit observations and recommendations are as follows:

1. The booking of DFPC's claim from the Manila International Airport Authority (MIAA), which is still under arbitration before the Office of the Government Corporate Counsel (OGCC), as Accounts Receivable-Non Trade, resulted in overpayment of P61.814 million to Department of Tourism (DOT) representing its 50 per cent share in DFPC's income.

   We recommended and Management agreed to make representations with DOT regarding the over-remittance so that amount of P61.814 million could be offset in the succeeding remittances of the DFPC.

2. The delay in the opening of NAIA Terminal 3 Landside Stores, caused by unresolved issues in the construction and installation of equipment, resulted in DFPC losses from payment of rent to MIAA amounting to P83.998 million and the deprivation of opportunity income in an estimated amount of P1.837 billion.

We recommended that Management:

a) Immediately resolve the issues and problems and fast-track the construction of the fit-in-works as well as the installation of equipment needed for the Terminal 3 Landside Project and avoid losses;

b) Submit all other necessary documents for auditorial and technical review of the project; and

c) Disclose the latest status of the project including percentage of completion.

3. Policies and/or operating guidelines as basis for the determination of the amount of fixed consideration due from the concessionaires for rent, utilities, maintenance, security and investment on leasehold improvement was not properly set, but was based only on the area occupied by the concessionaires, thus, the reasonableness of the amount of consideration could not be established.

   We recommended that Management:

   a) Formulate operating guidelines/policies that will serve as the basis of computation of the consideration due from concessionaires and properly allocate expenses as to rent, utilities, maintenance, security and/or investment on leasehold improvement;

   b) Consider other factors affecting variable expenses such as number of persons occupying the space, type and number of furniture, fixtures and equipment, as well as the type and volume of merchandise held for sale in the determination of a reasonable cost to be shouldered by the concessionaires; and

   c) Clarify the basis on the allocation of fixed considerations to the actual expense accounts for CY 2016. Make adjustments if necessary.

Summary of Suspensions, Disallowances and Charges

As of December 31, 2016, the DFPC has no unsettled disallowances, charges and suspensions. The Supreme Court in its decision dated July 12, 2016 partly granted the petition and modified the August 17, 2011 COA Decision No. 2011-059 as regards Notice of Disallowance No. (ND) PTA 2006-001 dated July 13, 2006, such that officers who approved and employees who received the 14th month bonus are not personally liable to refund the disallowed amount. In a letter of transmittal by the Supreme Court Deputy Clerk of Court address to the COA Chairperson dated January 26, 2017, the Supreme Court En Banc issued an Entry of Judgment that the July 12, 2016 decision has become final and executory and the Temporary Restraining Order issued in April 22, 2014 was lifted.

Status of Implementation of Prior Year's Audit Recommendations

Out of the five prior year's audit recommendations, two were fully implemented, one partially implemented and two were not implemented. Details are presented in Part III of this report.

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Duty Free Philippines Corporation
EHA Building, Ninoy Aquino Avenue
Parañaque City

Report on the Financial Statements

We have audited the accompanying financial statements of Duty Free Philippines Corporation (DFPC), which comprise the Statements of Financial Position as of December 31, 2016 and 2015, and the Statements of Profit or Loss, Statements of Changes in Equity, and Statements of Cash Flows for the years then ended, and a Summary of Significant Accounting Policies and Other Explanatory Information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles generally accepted in the Philippines, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the Philippine Financial Reporting Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly in all material respects the financial position of DFPC as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with state accounting principles generally accepted in the Philippines.

Report on Supplementary Information Required Under BIR Revenue Regulation 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties, and license fees paid or accrued during the taxable year described in Note 17 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

HENEDINA R. OTADOY
Supervising Auditor
Audit Group F - Trading and Promotions
Cluster VI, Corporate Government Sector

May 12, 2017

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Duty Free Philippines Corporation is responsible for all information and representations contained in the accompanying Balance Sheet as of December 31, 2016 and the related Statement of Income and Expenses and Cash Flow for the year then ended. The financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

ELEONOR A. MACARAIG	**VICENTE PELAGIO A. ANGALA**
OIC - Finance Division	Chief Operating Officer

DUTY FREE PHILIPPINES CORPORATION
STATEMENT OF FINANCIAL POSITION
December 31, 2016
(With Corresponding Figures for CY 2015)
(In Philippine Peso)

	Notes	2016	2015 (As restated)
ASSETS			
Current Assets			
Cash and Cash Equivalents	2.2, 3	1,679,780,005	1,894,873,753
Receivables - Net	2.3,4	234,134,159	285,434,072
Inventories - Net	2.4, 2.5, 5	166,164,558	197,144,153
Prepayments	6	21,141,745	19,589,047
Total Current Assets		2,101,220,467	2,397,041,025
Non-Current Assets			
Investment in Stocks	7	1,020,199	1,146,100
Property and Equipment - Net	2.6, 8	229,567,498	144,357,758
Other Assets - Net	9	497,760,662	496,443,907
Total Non-Current Assets		728,348,359	641,947,765
TOTAL ASSETS		**2,829,568,826**	**3,038,988,790**
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts Payable		1,680,475,733	1,914,289,389
Inter-Agency Payable		99,747,477	184,625,223
Other Payables		463,116,873	379,760,529
Total Current Liabilities	10	2,243,340,083	2,478,675,141
Non-Current Liabilities			
Deferred Credits	11	10,943,037	10,376,387
Total Non-Current Liabilities		10,943,037	10,376,387
Total Liabilities		2,254,283,120	2,489,051,528
Equity	12	575,285,706	549,937,262
TOTAL LIABILITIES AND EQUITY		**2,829,568,826**	**3,038,988,790**

The notes on pages 8 to 24 form part of these financial statements.

DUTY FREE PHILIPPINES CORPORATION
STATEMENT OF PROFIT OR LOSS
For the Year Ended December 31, 2016
(With Corresponding Figures for 2015)
(In Philippine Peso)

	Notes	2016	2015 (As restated)
OPERATING INCOME	2.7, 2.9		
Net Sales	13	10,560,727,359	10,478,569,795
Cost of Sales	14	8,460,318,273	8,481,732,568
Gross Profit on Sales		2,100,409,086	1,996,837,227
OPERATING EXPENSES	2.7		
Personal Services	16	470,368,825	509,128,414
Maintenance and Other Operating Expenses	17	1,492,151,856	1,341,191,170
Financial Expenses	18	2,376,951	2,249,858
TOTAL OPERATING EXPENSES		1,964,897,632	1,852,569,442
INCOME FROM OPERATIONS		135,511,454	144,267,785
OTHER INCOME	15	28,701,314	53,701,661
NET INCOME		**164,212,768**	**197,969,446**

The notes on pages 8 to 24 form part of these financial statements.

DUTY FREE PHILIPPINES CORPORATION
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2016
(With Corresponding Figures for 2015)
(In Philippine Peso)

	Notes	2016	2015 (As restated)
GOVERNMENT EQUITY			
PTA Equity		8,235,065	8,235,065
Donated Capital		14,387,330	14,387,330
Total Government Equity	12	22,622,395	22,622,395
RETAINED EARNINGS			
Balance at Beginning of Year		527,314,867	585,023,784
Adjustment made on Due to DOT		(1,328,114)	0
Mandatory contributions to DOT		(82,106,384)	(170,678,363)
Application of over remittance to DOT in Prior Years with Board resolution & as per COA Recommendation		(42,000,000)	(85,000,000)
Adjustment made on Property, Plant & Equipment		(13,429,826)	0
Net income		164,212,768	197,969,446
Balance at End of Year		552,663,311	527,314,867
EQUITY	12	**575,285,706**	**549,937,262**

The notes on pages 8 to 24 form part of these financial statements.

DUTY FREE PHILIPPINES CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016
(With Corresponding Figures for 2015)
(In Philippine Peso)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Inflows		
Receipt from Trading and Production Sales	10,418,608,807	10,310,334,872
Gain on Foreign Exchange	15,068,531	17,040,915
Collection of Claims and Other Receivables	48,957,459	38,928,376
Rent Income	972,451	220,748
Interest Income	9,614,076	6,681,881
Proceeds from Sale of Waste Materials	972,451	263,113
Collection of Guaranty Deposits	6,297,657	6,051,506
Collection of Interest Receivables	1,801,048	817,336
Foreign Currency Adjustment	27,268,616	19,993,040
Miscellaneous Income	16,033,927	11,713,556
	10,545,595,023	10,412,045,343
Cash Outflows		
Remittance to Concessionaires	7,162,181,120	6,955,232,718
Payment of Maintenance and Other Operating Expenses	1,203,714,698	1,112,626,859
Payment of Trade and Non-Trade Payables	1,105,471,447	901,014,426
Payment of Personal Services	467,792,927	454,221,881
Payment of Merchandise for Sale	244,318,318	198,186,158
Remittance of Trust Liabilities	233,507,350	233,103,342
Payment of Prepaid Expenses/Guaranty Deposits	9,372,943	20,207,871
Payment of Letters of Credit	34,340,142	33,002,566
Payment of Taxes, Licenses and Fees	8,137,175	9,889,977
Payment of Bank Charges	741,425	312,845
Payment of Interest	0	0
Gain/loss on Foreign Exchange	11,538,495	8,939,134
Payment of Prior Years' Expenses	210,813	237,203
	10,481,326,853	9,926,974,980
NET CASH PROVIDED BY OPERATING ACTIVITIES	64,268,170	485,070,363
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and Equipment	(108,683,555)	(30,005,395)
NET CASH USED IN INVESTING ACTIVITIES	(108,683,555)	(30,005,395)
CASH FLOWS FROM FINANCING ACTIVITIES		
Remittances to the Department of Tourism	(170,678,363)	(135,424,427)
NET CASH USED IN FINANCING ACTIVITIES	(170,678,363)	(135,424,427)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(215,093,748)**	**319,640,541**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**1,894,873,753**	**1,575,233,212**
CASH AND CASH EQUIVALENTS, END OF YEAR	**1,679,780,005**	**1,894,873,753**

The notes on pages 8 to 25 form part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

(All amounts in Philippine Peso unless otherwise stated)

1. CORPORATE INFORMATION

Duty Free Philippines (DFP) was created by virtue of Executive Order (EO) No. 46 dated September 4, 1986 which granted the then Ministry of Tourism (MOT), through the Philippine Tourism Authority (PTA), to establish and operate a duty and tax free merchandising system in the Philippines, for the purpose of augmenting the service facilities for tourists, and to generate foreign exchange and revenue for the government. Net income generated from merchandising operations accrues to the National Government through the MOT, now Department of Tourism (DOT), pursuant to Section 3 of EO No. 46.

In pursuance of EO No. 46, DOT issued the implementing rules and regulations (IRR) on the establishment, management and operation of the duty and tax free merchandising system in the Philippines through the issuance of Tourism Administrative Order (TAO) No. 89-04. Its provisions cover the establishment, importations, operations and sales of the merchandising system.

On October 28, 1998, TAO No. 89-04 was amended in order to adopt the necessary measures and strategies to address the heavy losses of DFP. With the amendments, the relationship of DFP and PTA was restated under Article I as follows:

> *"Section 1.2 For the purposes aforestated, "DUTY FREE PHILIPPINES" is hereby established as a Sector of the Philippine Tourism Authority to exclusively manage and operate the stores and ships that would sell tax and duty free merchandise, goods and articles, among others."*

On May 12, 2009, Republic Act (RA) No. 9593, otherwise known as the Tourism Act of 2009, was enacted and took effect 30 days after its publication in the Official Gazette on July 13, 2009. The IRR became effective upon its publication on November 12, 2009.

Under Section 89 of the said Act, DFP shall be reorganized to become the Duty Free Philippines Corporation (DFPC), which shall be attached to the DOT. Accordingly, DFPC shall become a body corporate mandated to operate the tax and duty free merchandising system in the Philippines as established by the Department under EO No. 46.

With the implementation of the Tourism Act, DFPC is now headed by a Chief Operating Officer (COO), and is governed by a Board of Directors, composed of the following:

(a) The DOT Secretary, as Chairperson;
(b) The Chief Operating Officer of the DFPC, as Vice Chairperson;
(c) The Department of Finance Secretary, as Ex-Officio Director;
(d) The Department of Trade and Industry Secretary, as Ex-Officio Director, and
(e) Three representatives, to be appointed by the President, upon the recommendation of the Tourism Congress.

Under Section 93 of RA No. 9593, the DFPC shall have an authorized capitalization of P500 million which shall be fully subscribed by the National Government. A minimum of 50 per cent of the annual net profits of the DFPC shall be remitted automatically to the

Office of the DOT Secretary to fund tourism programs and projects, in lieu of its statutory remittance to the National Government under RA No. 7656, 70 per cent of which shall be given to the Tourism Promotions Board (TPB).

Consistent with the nature of its operations and primary function to operate as a tax and duty-free merchandising system and to enable it to compete in the international tax and duty-free market, Section 95 of RA No. 9593 provides that DFPC shall be entitled to an exemption from the following:

(a) Duties and taxes, including excise tax and Value Added Tax (VAT), relative to the importation of merchandise for sale;
Local taxes and fees imposed by the Local Government Units; and
(b) Corporate income tax.

Likewise, under Section 105 thereof, the employees and Management of the DFPC shall be exempt from the coverage of the Salary Standardization Law.

Finally, by virtue of Section 110 of the same enactment, DFPC shall be subrogated to all rights and shall assume all liabilities of the DFP in accordance with pertinent laws, rules and regulations.

The transformation to a government corporation of the DFPC is still in transition pending the review and approval by the Governance Committee on Government Owned and Controlled Corporations (GOCCs) (GCG) of the new organizational structure, plantilla of positions and compensation package. DFPC submitted its Reorganizational Plan to GCG in March 23, 2016.

DFPC is operating the tax and duty-free stores located at the following:

- Fiestamall, Parañaque City
- Ninoy Aquino International Authority (NAIA) Terminal 1 Arrival and Departure Outlets, Pasay City
- NAIA Terminal 2 Arrival and Departure Outlets, Pasay City
- NAIA Terminal 3 Arrival and Departure Outlets, Pasay City
- Mactan International Airport Arrival and Departure Outlets, Cebu
- Waterfront Hotel, Lahug, Cebu City
- Davao International Airport Arrival Outlet, Davao City
- Davao International Airport Visitors' Center, Davao City
- Laoag International Airport, Laoag City
- Newport Mall Resorts World, Pasay City
- Kalibo International Airport – Arrival and Departure, Kalibo, Aklan
- Clark International Airport – Pre-Departure and Arrival Area, Clark Freeport Zone, Pampanga
- Iloilo International Airport – Cabatuan, Iloilo
- Market Mall Store, Puerto Princesa, Palawan
- Laguindingan International Airport, Cagayan de Oro City
  Silay International Airport, Bacolod City

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation of Financial Statements

The financial statements of DFPC are prepared in accordance with the generally accepted accounting principles (GAAP) in the Philippines using historical cost basis, except for accounts which have been re-stated at liquidation value.

The DFPC Chart of Accounts was revised based on Commission On Audit (COA) Circular No. 2004-008 dated September 20, 2004 simultaneous with the official implementation of the ***ebackoffice*** by Epicor financial accounting system in January 2005.

2.2 Cash and Cash Equivalents

Cash and Cash Equivalents account include cash on hand items as well as peso, dollar and euro currency deposits in banks, which are available for use in current operation.

It also includes euro currency placed in time deposit with maturity of three months classified as cash equivalents.

2.3 Allowance for Doubtful Accounts

Receivables are valued at their face amounts minus, whenever appropriate, allowance for doubtful accounts.

The allowance is provided according to collectibility of the receivable balances and evaluation factors such as aging of accounts and loss experiences of DFPC. It is adjusted at the end of the year based on validation and analysis of collection.

Trade receivables are aged accordingly to establish the amount of bad debts derived from percentages proportionate with the age of receivables, as follows:

Age of Accounts	Per cent
1 - 60 days	1
61 - 180 days	2
181 days - 1 year	3
More than a year	5

Provision of allowance for other trade receivables is calculated using the following rates:

Age of Accounts	Per cent
More than 1 year to 2 years	30
3 years	40
4 years	70
5 years	80
6 years	95
7 years and above	100

To ensure collection, DFPC adopted “outright deduction” policy where DFPC offsets its receivables from payables to concessionaires and vendors. These include charges for rental, freight, storage, brokerage, demurrage, warehousing bond/insurance, truck usage, forklift, blanket waiver, power consumption, communication, security, salary subsidy, one per cent commission on credit card, travel agency and tourist guide commission, DFPC shopping bags, share on discount for promotional sale and other related expenses duly conformed by the respective concessionaires. Vendors are also charged for the support on price reduction, defective electronics and rebates.

2.4 Inventories

Merchandise Inventories

Merchandise inventories are recorded in the books at invoice cost including freight and insurance charges.

The Purchase Order (PO) serves as the initial cost of merchandise in Merchandise Management System (MMS). Freight and insurance rates are allocated by the buyer to arrive at landed cost applying the appropriate factors such as forwarders, country of origin, supplier, currency, volume and mode of shipment. Insurance rate is estimated at 0.25 per cent of invoice cost with 10 per cent mark-up.

Merchandise inventory is valued at landed average cost computed at moving average method in MMS. It is also the basis for recording the cost of sales, damage/defective merchandise, gate pass of stocks, return to vendor, and physical count reconciliation adjustments.

Cycle and year-end physical inventory counts are conducted and reconciled with books and MMS by product department total cost and by item quantity, respectively. The variance is temporarily recognized as cost of sales adjustment pending matching of PO cost and MMS landed average costs. The quantity variance between the physical count and MMS is recognized as inventory loss which is charged against concerned employees after verification and evaluation.

Supplies Inventories

DFPC adopted the weighted average cost method for supplies inventories calculated under Inventory Module of ***ebackoffice*** by Epicor Financial Accounting System where average cost is based on actual cost from the last recorded receipt.

2.5 Provision for Inventory Obsolescence

Allowance for obsolescence is provided for damaged and good merchandise. For damaged merchandise, 100 per cent allowance for consumables and 80 per cent for non-consumables are provided. For black lines and white lines, allowance is determined according to aging and assessment by the Buyer-in-Charge, while 80 per cent is provided for non-moving and discontinued stocks such as home furnishings, lighters, eyewears, housewares, sporting goods, writing instruments and livelihood.

For good merchandise, allowance is provided based on the year-end aging by MMS using the following rates:

Age of Inventory	Per cent
2 years and below	no allowance
more than 2 years to 4 years	10
more than 4 years to 6 years	20
more than 6 years and above	80

2.6 Property and Equipment

Furniture, fixtures and equipment are recorded at invoice cost inclusive of VAT. Using the straight-line method, depreciation is computed at acquisition cost over the estimated useful life of the asset ranging from two to five years after deducting the salvage value, estimated at 10 per cent of the acquisition cost.

The Administrative Department records and maintains in the Asset Management Module of the ***ebackoffice*** by Epicor financial accounting system the detailed information about the assets, such as creation and activation of newly acquired assets, depreciation, disposition, and changes caused by addition, damage, or improvements, and generate journal entries for posting to the General Ledger.

The acquired fixed assets are temporarily recorded in a clearing account under the Accounts Payable Module and automatically reversed by the system to the appropriate asset account. Depreciation begins at place-in service date, the following month after acquisition date. Pending reversal, the clearing account forms part of the Furniture, Fixtures and Equipment account presented in the financial statements.

Fabricated furniture and fixtures and on-going leasehold improvements are taken up as Construction in Progress (CIP) - Others and CIP - Leasehold respectively and capitalized to corresponding asset account upon issuance of Certificate of Completion by the Facilities and Management Department.

2.7 Income and Expenses

DFPC adopts the accrual method of accounting for income and expenses.

Expenses subsidized by/reimbursed from the suppliers/concessionaires are taken up as deduction from the corresponding expense accounts.

2.8 Foreign Currency Transactions

Foreign currency transactions involving importation of merchandise, sales, and remittances to concessionaires are recorded in dollars translated into pesos according to monthly pre-determined book rate set in ***ebackoffice*** by Epicor financial accounting system.

The Visual Quick Point of Sale (POS) is a system used by DFPC to capture sales data that automatically converts to dollar the third currency including peso sales using store rate for recording in the books of accounts.

The difference in the conversion rate used between POS and bank rate to translate third currency cash sales to dollar is recognized as gain or loss on foreign exchange while the difference between peso sale transactions and its conversion to dollar by POS system is taken up as sales adjustment.

All balances of foreign currency transactions pertaining to cash, receivables, payables and inventory accounts are translated using the Philippine Dealing System closing rate as of year-end.

2.9 Sales Revenue

This includes income derived from sale of DFPC direct merchandise, supplier's owned inventory (consignment), and sale under supply and delivery agreement (concession).

Cost of goods sold of concession merchandise corresponds to percentage consideration taken up as Other Business Income presented in the Statement of Income and Expenses as gross profit on sales.

Similar to the direct merchandise, consigned goods sold are directly recorded as cost of sales based on purchase order cost.

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

Particulars	2016	2015
Cash on hand		
Collecting Officer	42,747,909	40,807,497
Disbursing Officer	0	873,537
Petty Cash Fund	1,436,943	1,436,943
Sub-Total	44,131,473	43,117,977
Cash in Banks - Local Currency		
Current Account	313,369,132	112,817,739
Savings Account	1,253,240	85,218,975
Sub-Total	314,622,372	198,036,714
Cash in Banks - Foreign Currency		
Current Account	6,612,784	18,194,432
Savings Account	176,799,668	497,604,547
Sub-Total	183,412,452	515,798,979
Time Deposits - Foreign Currency	1,137,920,083	1,137,920,083
Total Cash and Cash Equivalents	**1,679,780,005**	**1,894,873,753**

The amount in dollar and euro savings and current account is converted to local currency using the Philippine Dealing System closing rate of P49.72:USD1.00 as of balance sheet date.

The Time deposits - Foreign currency account is equivalent to US$22,880,405.

Cash on hand of collecting officer represents cash sales on December 31, 2016 deposited in January 2017.

4. RECEIVABLES - NET

This account consists of the following:

Particulars	2016	2015 (As Restated)
Receivables - Current		
Trade/Business	60,059,424	65,421,800
Non-Trade	56,185,864	59,824,222
Sub-total	116,245,288	125,246,022
Due from NGAs - DOT	117,073,506	161,814,434
Due from Officers and Employees	915,493	960,818
Due from Government Owned and Controlled Corporations	866,808	378,129
Interest Receivable	2,504,963	1,801,048
Allowance for Doubtful Accounts	(3,471,899)	(4,766,379)
Receivables - Net	**234,134,159**	**285,434,072**

Receivables - Current account consists of various claims expected to be collected within 12 months following the balance sheet date.

Receivables - Trade/Business account represents the uncollected proceeds of sales due from credit card companies that are paid through banks. This also includes sale of merchandise on account to diplomatic/foreign embassies and other international organizations.

Receivables – Claims account pertains to claims against suppliers and/or insurance companies due to short shipment, missing/unaccounted and/or damaged/defective merchandise.

Receivables - Non-trade account comprises advertising and space rentals, amendment charges, product and supplier funded cash incentives, rebates, and commissions due to prompt payments. It also includes reimbursement of expenses from concessionaires for fixed consideration, commission expenses on credit cards, bank charges, freight, storage, demurrage and other importation charges, power consumption, communication and security which are paid by DFPC.

Due from National Government Agencies (NGAs) - DOT account represents receivable from DOT for the overremittance in previous years amounting to P344,614,070, of which P100,000,000 was classified as current and P244,614,070 as Other Asset - Non-Current Receivables. The receivable from DOT is recognized in compliance with Calendar Year (CY) 2011 audit recommendation of Commission On Audit (COA) on the accuracy and completeness of Retained Earnings and contributions due to DOT.

Due from Officers and Employees account is used to record cash advances granted for travel, cashier's shortages, inventory losses/shortages, property accountability, communication charges and loans.

Due from GOCCs refers to Social Security System (SSS) maternity benefits of DFPC employees paid in advance by the company.

Interest receivable was derived from short-term investment in euro, dollar and peso time deposits that will mature in 2017.

5. INVENTORIES - NET

This account consists of the following:

Particulars	2016	2015
Merchandise Inventory	166,262,863	182,161,023
Allowance for Inventory Obsolescence	(4,747,156)	(3,791,256)
Sub-Total	161,515,707	178,369,767
Supplies Inventory	4,584,226	18,690,832
Items in Transit - Supplies Inventory	64,625	83,554
Inventories - Net	**166,164,558**	**197,144,153**

Merchandise Inventory account represents the year-end physical inventory at MMS values. Allowance for inventory obsolescence is subject to adjustment upon submission of Aging Valuation Report by Merchandising Division.

6. PREPAYMENTS

This account consists of the following:

Particulars	2016	2015
Prepaid Rent	16,549,415	11,746,307
Prepaid Insurance	4,314,846	6,759,977
Other Prepaid Expenses	277,484	1,082,763
Total Prepayments	**21,141,745**	**19,589,047**

Prepaid Rent account represents advance rentals on store outlets.

Prepaid Insurance account consists of premiums for fidelity bonds, policy insurance for employees, fire insurance on furniture and fixtures, electronic equipment and merchandise inventory.

Other Prepaid Expenses account represents other prepayments not falling under any of the above prepaid expenses.

7. INVESTMENT IN STOCKS

This account pertains to the cost of stocks and securities of service enterprises which are required by contractual conditions to be invested before availing the services of such enterprises.

8. PROPERTY AND EQUIPMENT- NET

This account consists of the following:

Particulars	2016	2015 (As Restated)
Leasehold Improvements	91,871,591	161,765,278
Construction in Progress	11,598,310	11,279,868
Sub-Total	103,469,901	173,045,146
Accumulated Amortization	(74,089,832)	(134,899,474)
Leasehold Improvements - Buildings, Net	29,380,069	38,145,672
IT Equipment	249,690,737	256,916,538
Construction in Progress - Others	116,902,006	2,694,818
Other Machineries and Equipment	56,852,436	68,752,344
Furniture and Fixtures	24,202,284	37,472,686
Motor Vehicles	9,861,784	10,299,284
Communication, Firefighting and Sports Equipment	9,067,389	12,521,382
Books and Publications	72,837	298,330
Sub-Total	466,649,473	388,955,382
Accumulated Depreciation	(266,462,044)	(282,743,296)
Furniture, Fixtures and Equipment, Net	200,187,429	106,212,086
Property and Equipment - Net	**229,567,498**	**144,357,758**

The Leasehold Improvements account consists of the costs of additions and renovations of existing and newly opened Duty Free stores, warehouses and offices located at Fiesta Mall, NAIA, Resorts World Manila, Laoag, Legaspi, Kalibo, Cebu, Clark, Iloilo, and Puerto Princesa outlets.

Leasehold improvements are amortized over the shorter of their useful life or the remaining term of the lease.

Furniture, fixtures and equipment are carried at cost and comprise of the purchase price including any direct attributable costs of bringing the assets to its working condition.

The net book values of property and equipment as of December 31, 2016 are computed as follows:

Particulars	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
Cost:			
January 1, 2016	161,765,278	388,389,384	550,154,662
Additions	4,940,042	26,597,750	31,537,792
Derecognition	(74,833,729)	(8,969,540)	(83,803,269)
Adjustment	0	(56,270,126)	(56,270,126)
Construction in progress	11,598,310	116,902,005	128,500,315
December 31, 2016	103,469,901	466,649,473	570,119,374
Accumulated Depreciation:			
January 1, 2016	134,899,474	282,893,099	417,792,573
Depreciation charges	(60,809,642)	(16,431,055)	(77,240,697)
December 31, 2016	74,089,832	266,462,044	340,551,876
Net Book Value	**29,380,069**	**200,187,429**	**229,567,498**

9. OTHER ASSETS

This account consists of the following:

Particulars	2016	2015 (As Restated)
Guaranty Deposits - Rental	242,203,225	242,436,008
Non-Current Receivables	290,433,591	296,669,441
Allowance for Doubtful Accounts	(37,819,521)	(44,993,619)
Sub-Total	252,614,070	251,675,822
Merchandise for Disposal	4,622,706	3,089,295
Allowance for Inventory Obsolescence/ Damage	(3,746,518)	(2,486,578)
Sub-Total	876,188	602,717
Guaranty Deposits - Others	681,529	681,529
VAT Input Tax	854,605	516,786
Guaranty Deposits - Public Utilities	531,045	531,045
Other Assets - Net	**497,760,662**	**496,443,907**

Guaranty Deposits – Rental are concessionaires' rental deposits on leased spaces.

Non-current Receivables account include Due from DOT of P252,614,070 representing over remittances to be applied to future remittances, subject to DFPC Board declaration.

Merchandise for Disposal account refers to damaged merchandise stored at warehouses and Value Shop. Damages incurred are booked monthly with provision for damage supported by Shipping Manifest (Incident Report), Cost of Sales Report and Return to Vendor paid by suppliers. Epicor and MMS shall be adjusted upon submission of status report on Damage Sale handled by Merchandising Division (Damage

Committee) to consider donation, condemnation/destruction and to account for the remaining stocks.

VAT input tax represents the 12 per cent VAT passed on to DFPC from various trade and non-trade payments. The input taxes are being applied against the output tax derived from non-operating income of DFPC.

10. CURRENT LIABILITIES

This account is composed of the following:

Particulars	2016	2015 (As Restated)
Accounts Payable		
Trade/Business	1,615,798,496	1,782,369,415
Non-Trade	64,677,237	131,919,974
Sub-Total	1,680,475,733	1,914,289,389
Inter-Agency Payable		
Due to Other NGA - DOT	82,106,384	164,546,177
Due to Bureau of Internal Revenue	14,495,459	16,897,490
Due to Government Service Insurance System	1,546,278	0
Due to Pag-ibig	919,009	1,463,335
Due to Social Security System	445,260	1,411,171
Due to Philhealth	235,087	307,050
Sub-total	99,747,477	184,625,223
Other payables		
Accrued expenses	329,794,877	275,961,921
Guaranty deposits payable	84,997,438	84,543,831
Miscellaneous	24,704,139	2,024,216
Performance bonds payable	12,958,167	12,707,828
Retention payable	9,221,686	3,459,157
Commissions payable	857,054	654,425
Due to officers and employees	318,665	303,643
VAT output tax	264,847	105,508
Sub-total	463,116,873	379,760,529
Total Current Liabilities	**2,243,340,083**	**2,478,675,141**

Trade Payables account represents amount due to foreign and local suppliers for the purchase of merchandise for sale payable through check, telegraphic transfer or through Open Account/Draft Acceptance and Letter of Credit maintained with Philippine National Bank and Bank of Commerce. It also includes importation charges such as freight and insurance, brokerage and warehousing bond. This account is, likewise used for remittance of consignment and concession sales.

Non-trade payables are liabilities arising from various services such as janitorial, security, salaries and wages, compensation/benefits; amount due to various suppliers for the purchase of supplies, furniture, equipment; expenses for utility, communication, subsidies, donations, repairs and maintenance and expenses other than purchase of merchandise for sale.

Due to other NGA - DOT account pertains to mandatory contributions of DFPC to DOT in accordance with the provisions of RA No. 9593 with a minimum amount equivalent to 50 per cent of the annual net profits of the DFPC. This also includes DOT's additional 25 per cent share on DFPC's net profit for year 2010. Under Section 107 of Rule VII, Chapter III of the IRR of RA No. 9593, unless the DFPC Board provides otherwise, the DFPC shall retain a minimum of 25 per cent of its annual net profits to fund its operations, make allowances for possible future losses, and fund any expansion program.

The balance of the account is composed of the following:

Unremitted Balance of 2014	129,292,241
50% Share in CY 2015 Net Income	170,678,363
Remittances for CY 2015	(135,424,427)
Balance, January 1, 2015	164,546,177
Adjustments for CY 2014	1,328,114
Reclassification of Over Remittance from 2010-2016	4,804,072
Remittances for CY 2016	(170,678,363)
50% Share in CY 2016 Net Income	82,106,384
Balance, December 31, 2016	82,106,384

Due to Bureau of Internal Revenue (BIR) account consists of tax withheld from suppliers (Expanded & VAT) dated December 2015 transactions for remittance in January 2016.

Accrued expenses are the expenses incurred in CY 2015 but not paid as of year-end.

Guaranty Deposits Payable account represents maximum of three months rental for store and warehouse spaces posted by DFPC's various concessionaires and updated upon increase of rental rate stipulated in the Memorandum of Agreement.

Performance Bonds Payable represents receipts from DFPC service providers/suppliers to guarantee their performance to be refunded upon full delivery of service and termination/completion of contract.

Retention Payable account consists of the 10 per cent retention on contract price of various construction contracts on leasehold improvements.

Bidders Bonds Payable account represents receipts from bidders vying for award of DFPC contract.

Due to Officers and Employees account represents unclaimed salaries, bonuses, allowances and other personnel benefits of resigned/end-of-contract employees.

Commission Payable account is used to record commissions due to travel agencies and tour guides for services rendered.

VAT Output Tax account represents 12 per cent VAT on income other than sale of merchandise that are subject to tax.

Other Payables – Miscellaneous account represents payables to various entities with authorized deductions from employees' salaries and payables for the construction in progress of leasehold improvements with installment payment term.

11. DEFERRED CREDITS

This account is composed of the following:

Particulars	2016	2015
Gift Certificates	6,474,603	5,787,798
Deferred Credits to Income	2,308,454	2,977,093
Undistributed Collections	2,159,980	1,603,907
Other Deferred Credits	0	7,589
Total Deferred Credits	**10,943,037**	**10,376,387**

12. GOVERNMENT EQUITY

This account consists of:

Particulars	2016	2015 (As Restated)
Government Equity		
PTA Equity	8,235,065	8,235,065
Donated Capital	14,387,330	14,387,330
Total Government Equity	22,622,395	22,622,395
Retained Earnings		
Net Income	164,212,768	197,969,446
Accumulated Results of Operations	388,450,543	329,345,421
Retained Earnings, End	552,663,311	527,314,867
Equity	**575,285,706**	**549,937,262**

Government Equity account represents the balance of the P50 million capital initially given to DFP for its operations and donations from various sources as of December 31, 2016.

Retained Earnings account consists of the net income during the year and accumulated results of operations from 1987 to 2015.

Remittances to DOT from 1987 to 2009 were made pursuant to EO No. 46 where all the net profits from the merchandising operations of DFP accrued to the DOT for tourism programs of the government, in lieu of the statutory remittance to the National Government under RA No. 7656. The 2011 balance was adjusted to the accumulated results of operations in 2011.

Effective 2010, pursuant to RA No. 9593, 50 per cent of the net income of the DFPC accrued to the DOT, 70 per cent of which is allocated to finance the activities of the TPB.

The 2010 and 2011 contributions to DOT were deducted from the accumulated results of operations upon accrual and recorded under Due to Other NGA - DOT account.

13. NET SALES

This account is composed of DFPC direct items including consignment and concession sales as shown below:

Particulars	2016	2015
Direct		
Gross Sales	663,534,827	672,765,601
Sales Discount	(1,536,493)	(2,366,384)
Sales Returns and Allowances	(5,723,975)	(4,383,827)
Sub-Total	656,274,359	666,015,390
Concession		
Gross Sales	10,023,393,576	9,940,029,945
Sales Discount	(39,852,292)	(48,384,144)
Sales Returns and Allowances	(79,088,284)	(79,091,396)
Sub-Total	9,904,453,000	9,812,554,405
Net Sales	**10,560,727,359**	**10,478,569,795**

14. COST OF SALES

This account consists of DFPC direct merchandise including consignment and concession cost of sales as follows:

Particulars	2016	2015 (As Restated)
Direct	531,602,076	575,420,281
Concession	7,928,716,197	7,906,312,287
Total Cost of Sales	**8,460,318,273**	**8,481,732,568**

15. OTHER INCOME (LOSS)

This account consists of the following:

Particulars	2016	2015 (As Restated)
Space Rental	13,601,112	9,253,649
Interest Income	12,119,039	8,482,930
Gain on Foreign Exchange	7,934,741	33,021,314
Miscellaneous Income-Others	2,432,815	2,459,907

Particulars	2016	2015 (As Restated)
Advertising Space Rental	972,451	220,748

Gain (Loss) on Disposed Assets	(8,358,844)	263,113
Total Other Income	**28,701,314**	**53,701,661**

Gain/(Loss) on Foreign Exchange account represents gain or loss of balance sheet accounts in foreign currencies converted to local currency such as trade payables, trade receivables, cash in bank, and merchandise inventory.

The amount of P7,934,741 comprises of realized loss of P36,328,648 and unrealized gain of P44,263,389. The former resulted from the difference in bookkeeping rate used at the time of set-up of receivables/payables and upon actual collections/disbursements while the latter pertains to translation of outstanding balance of above-mentioned accounts denominated in foreign currencies to Philippine Dealing System closing rate of Peso to US Dollar at P47.06 as of December 31, 2016.

16. PERSONAL SERVICES

Expenses on Personal Services include the following:

Particulars	2016	2015 (As Restated)
Salaries and Wages	205,698,114	230,688,547
Allowances, Bonuses and Incentives	135,118,357	147,425,117
Other Personnel Benefits	95,917,863	86,110,568
Overtime and Night Pay	33,634,491	44,976,395
Total Personal Services	**470,368,825**	**509,128,414**

17. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

The following are the expenses incurred in operations:

Particulars	2016	2015 (As Restated)
Rent Expense	1,018,888,742	888,321,657
Advertising/Promotion	58,559,478	83,857,035
Supplies and Materials	53,902,210	58,859,411
Utility Expenses	50,049,986	43,689,771
Security Services	48,805,312	37,143,842
Consultancy and Other Professional Services Expenses	45,341,965	1,818,349
Traveling Expenses	42,978,523	45,992,016
Commission Expense	31,682,659	29,461,712
Storage Expenses	27,853,310	27,898,663
Non-Cash Expenses	27,264,423	33,901,474
Janitorial Services	26,614,364	24,473,548
Taxes, Licenses, Insurance and Other Fees	14,294,177	16,598,678
Transportation and Delivery Expenses	11,407,249	12,107,701
Miscellaneous Expenses	8,873,963	11,590,051
Communication Expenses	8,134,651	9,179,850
Repairs and Maintenance	8,065,426	5,473,611

Particulars	2016	2015 (As Restated)
Auditing Services	4,392,038	4,131,919
Representation Expenses	2,716,645	2,828,248
Training Expenses	2,233,254	3,648,589
Other Operating Expenses	93,481	215,045
Total MOOE	**1,492,151,856**	**1,341,191,170**

Rent expense represents rentals on building for bonded warehouse, offices, space area for store outlets and rentals of vehicles, forklift, chiller/freezer based on contracts. This account also includes concession privilege fee computed on net sales of DFPC store outlets: 10 per cent for NAIA and Mactan International Airport, and three per cent for Fiestamall, Waterfront Hotel, Resorts World Manila and Embarcadero.

18. FINANCIAL EXPENSES

These expenses are the following:

Particulars	2016	2015 (As Restated)
Documentary Stamp Expense	1,635,526	1,937,761
Bank Charges	741,425	312,097
Total Financial Expenses	**2,376,951**	**2,249,858**

19. RECLASSIFICATION AND RESTATEMENT OF ACCOUNTS

Certain accounts in CY 2015 were reclassified and restated to reflect the impact of the adjustments to prior years' income and expenses and related accounts in accordance with the Philippine Accounting Standards.

Prior years' accounts were restated as follows:

Assets, Liabilities and Capital	Previously Reported in 2015	Adjustments Recorded in 2016	Restated Balance
Receivables	907,948,043	(622,513,971)	285,434,072
Property, Plant and Equipment	146,336,775	(1,979,017)	144,357,758
Other Assets	496,623,270	(179,363)	496,443,907
Current Liabilities	2,460,185,133	(18,490,008)	2,478,675,141
Total Adjustments on Assets and Liabilities		**(643,162,359)**	

Retained Earnings	2015
Balance, Beginning (as previously reported)	1,084,798,863
Remittances to DOT	(170,678,363)
Application of Over Remittance to DOT in Prior Years (with Board Resolution)	(85,000,000)
Sub-Total	829,120,500

Net Income for CY 2015 (as previously reported)	341,356,726	
Prior Years' Adjustments -		
Interest Income	123,628,869	
Cost of Sales	(23,678)	
Personal Services	1,230,306	
Operating Expenses	18,552,498	
Financial Expenses	(714)	
Retained Earnings	499,775,078	
Adjustment to Net Income	**643,162,359**	(301,805,633)
Retained Earnings, End (As restated)		**527,314,867**

AUDIT OBSERVATIONS AND RECOMMENDATIONS

Financial and Compliance Audit

1. **The booking of Duty Free Philippines Corporation's (DFPC's) claim from the Manila International Airport Authority (MIAA), which is still under arbitration before the Office of the Government Corporate Counsel (OGCC), as Accounts Receivable-Non Trade, resulted in overpayment of P61.814 million to Department of Tourism (DOT) representing its 50 per cent share in DFPC's income.**

    1.1. DFPC recorded the amount of P567.932 million, representing claim from MIAA for the two per cent overpayment of Concessionaire's Privileged Fee (CPF) for the period 1998 to 2009 and the two per cent interest thereon totaling P123.629 million under Accounts Receivable-Non-Trade-Others in the total amount of P691.561 million which was credited to Retained Earnings. This is, contrary to paragraph 33 of Philippine Accounting Standard (PAS) 37 since the claim is still under arbitration before the Office of the Government Corporate Counsel (OGCC) in the case entitled DFPC vs Manila International Airport Authority (MIAA), Arbitration Case No. 2015-002. According to the Legal Department, the case is for submission of Joint Stipulation with the OGCC.

    1.2. Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate (Par. 33. PAS 37).

    1.3. MIAA billed DFPC in an increased amount of CPF from 10per cent to 12 per cent of net sales in all DFPC stores located at the different international airports nationwide which was not in accordance with the terms and conditions on the agreement of DFPC and MIAA on the CPF as embodied under the contract of lease executed on November 10, 1997.

    1.4. On the other hand, the two per cent interest in the amount of P123.629 million pertained to a two per cent interest compounded yearly, imposed by DFPC to MIAA on the overpayment of CPF for the period 1998 to 2009. There were no documents, however, to support the validity of the claim.

    1.5. The only supporting document is the schedule prepared by the DFPC Accounting Department for the computation of the two percent overpayment of CPF in the amount of P567.932 million and two percent interest compounded yearly imposed by DFPC to MIAA totaling P123.629 million as of December 31, 2015.

    1.6. The booking of the two per cent overpayment of CPF from the MIAA and two percent interest thereon, while the claim is still under arbitration and the outcome is uncertain, is contrary to paragraphs 31-35 and 89 of PAS 37 and PAS 18, thus, overstating Accounts Receivable-Non Trade and Retained Earnings (RE) by P691.560 million in CY 2016.

    1.7. Although adjustments were made per Journal Entry Voucher (JEV) No. 00533002 dated December 31, 2016 to reverse entry made per JEV No. 00475430 dated

December 31, 2015, the recognition of income in the prior year totaling P123.629 million resulted in the over-remittance of P61.814 million in CY 2016 to DOT representing its 50 per cent share in the CY 2015 annual net profits of DFPC amounting to P170.678 million.

1.8. DFPC set-up the receivable as Due from DOT under JEV No. 00533002 dated December 31, 2016, however, the receivable was not covered by a Memorandum of Agreement between DOT and DFPC. In this regard, the receivable may not be honored by DOT, hence, may not be collectible.

1.9. **We recommended and Management agreed to make representations with DOT regarding the over-remittance so that the amount of P61.814 million could be offset in the succeeding remittances of the DFPC.**

2. **The delay in the opening of Ninoy Aquino International Airport (NAIA) Terminal 3 Landside Stores, caused by unresolved issues in the construction and installation of equipment, resulted in DFPC losses from payment of rent to MIAA amounting to P83.998 million and the deprivation of opportunity income in an estimated amount P1.837 billion .**

2.1. DFPC entered into a Lease and Concession Contract (LCC) with MIAA on June 9, 2014 to lease the mall areas of NAIA Terminal 3 Landside Levels 1 and 2 with areas of 4,696.49 and 5,828.69 square meters, respectively, for the operation of duty free stores and food court. The lease agreement is for a period of five years inclusive of the six months grace period for the fitting works, to commence upon receipt of the DFPC of the Notice to Proceed (NTP).

2.2. Based on the letter of the former MIAA General Manager addressed to the former DOT Secretary dated November 4, 2015, the NTP was issued on November 14, 2014. As agreed upon in the LCC, DFPC shall continue to be responsible for all its financial obligations in case refitting works was not completed within the grace period.

2.3. In a letter dated October 29, 2014, the former MIAA General Manager informed DFPC that constructions for Landside Levels 1 and 2 shall commence on November 15, 2014 while charges for rental, CPF and Garbage Collection Fee (GCF) for these areas shall be effective May 16, 2015 or earlier should partial or full operation of DFPC store commence before the latter date. MIAA also required DFPC to submit the plans and designs for MIAA's approval. In a letter addressed to the former DFPC Chief Operating Officer (COO) by the former MIAA General Manger dated August 14, 2015, the latter reminded the former that billing shall start May 16, 2015 whether or not construction of the leased area had been finished.

2.4. DFPC expected to complete the construction of the stores by May 15, 2015 in time for the Asia Pacific Economic Cooperation (APEC) Executive Leaders Summit which was scheduled in November 2015.

2.5. The rental, concession and privilege fee and other charges stipulated in the contract is provided in the table below:

Level	Area in square meters	Rental	CPF exclusive of 12% EVAT	GCF exclusive of 12% EVAT
1	4,696.49 x P800 Duty Free Shops	3,757,192	10% of gross sales	1% of the rental
	1,000 x P800 Fast Foods	800,000	7% of gross sales	1.5% of the rental
2	5,828.69 Duty Free Shops	4,662,952	10% of gross sales	1% of the rental
Total		**9,220,144**		

2.6. The rental rate is subject to two per cent yearly escalation after three years from the start of the lease period and every five years thereafter should there be renewal of contracts

2.7. To date, however, the operations of the NAIA Terminal 3 Landside Stores in both Levels 1 and 2 have not started. Problems were encountered in the construction due to insufficient chilled water supply, construction of power house facilities and complete redesign of the store plans. The procurements of equipment, heating, ventilating and air-conditioning system (HVAC) and generator set had been delayed.

2.8. We noted that the former Deputy General Manager (DGM) for Administration denied the issuance of Purchase Requests for the procurement of the necessary equipment in deference to the incoming administration to decide on the Project. This contributed to the delay of the said project. Section 10.19, Article X of the LCC, however, provides that the contract shall be binding upon the parties thereto and their heir and successors-in-interest. Since the contract has been executed, the parties thereto are bound to honor the terms and conditions stipulated therein as long as it is not disadvantageous to the government.

2.9. Due to the delay in the construction, DFPC continues to incur losses for payment of rent with no corresponding income/benefit from the leased non-operational NAIA Terminal 3 Landside Stores, which as of December 31, 2016 already amounted to P83.998 million.

2.10. Had DFPC complied with the timetable for the fit-in-works of the stores, it could have generated income daily, especially during events where there were influx of tourists in the country, like the November 2015 APEC Summit, the January 2016 visit of Pope Francis and the 2017 Miss Universe Beauty Pageant. These occasions would have great impact on the sales of DFPC.

2.11. The projected monthly gross income from the Terminal 3 Landside Stores is P131.257 million. Thus, based on estimates, DFPC could have earned a gross opportunity income of P1.837 billion (P131.257 x 14 months) as of December 31, 2016, had DFPC opened and operated the Terminal 3 Landside Stores in November 2015.

2.12. While the Landside Stores have not been operational, DFPC Management requested to open temporary stores in a 491.04-square meter area at the frontage of the DFPC leased area with rental rate of P800 per square meter, seven per cent CPF and 1.5 per cent GCF.

2.13. The temporary stores started operation in December 2014. As of December 31, 2016, rentals on the temporary stores amounted to P9.502 million. Since this amount formed part of the rentals paid at Terminal 3 landside stores of P93.500 million, net loss incurred by DFPC from payment of the non-operational stores was computed at a net amount of P83.998 million as of December 31, 2016.

2.14. On the other hand the accumulated Gross Sales on the temporary stores from December 2014 to December 2016 amounted to P624.928 million, thus, the monthly average gross income was computed at P24.997 million (P624.928 million ÷ 25 months). Compared with the estimated monthly gross income of P131.257 million for Terminal 3 Landside stores, the forgone gross revenue of DFPC was estimated at P106.260 million (P131.257 million-P24.997 million) monthly.

2.15. **We recommended that Management:**

a) **Immediately resolve the issues and problems and fast-track the construction of the fit-in-works as well as the installation of equipment needed for the Terminal 3 Landside Project and avoid losses;**

b) **Submit all other necessary documents for auditorial and technical review of the project; and**

c) **Disclose the latest status of the project including percentage of completion.**

2.16. Management commented that DFPC will implement the COA recommendation to resolve issues and fast-tract the completion of the T3 Landside Project and will submit all other necessary documents regarding the project.

3. **The grant of car plan benefits to DFPC Executives and Managers without approval from the Office of the President (OP) in the total amount of P10.197 million in CY 2013 and P5.200 million in CY 2016 is contrary to Section 3 of Memorandum Circular No. 20, dated June 25, 2001 and Section 5 of Presidential Decree (PD) No. 1597 and may be considered as irregular expenditures as defined under COA Circular No. 2012-003 dated October 29, 2012.**

3.1. The Car Plan Program (CPP) of DFPC was conceived in 1995 based on the Guidelines issued on March 1, 1995 on LBP Leased Vehicles provided to DFPC

Managers. On March 18, 2003, a Memorandum was issued by the former DGM adopting the CPP issued on March 1, 1995 with additional qualification that fuel shall also be charged to the officer to whom the vehicle is assigned. Further, it was required that managers shall share in the acquisition cost of the assigned vehicle.

3.2. On July 5, 2012, Memorandum Management Services Division (MSD) (12) 020, which was signed by the DFPC Division Managers, relative to the Revised Procedure for the Availment of the Car Plan Benefit, was approved by the former COO with the following amendments:

> *"The Manager's Equity shall be paid by the manager in cash or through an approved car financing program over a period of 36 months. However, the 10% down payment required by financing institution to be advanced by DFPC which shall be deducted from the company equity of the car plan."*

3.3. All other provisions in the previously approved policy on the same benefit shall still apply and shall continue to be in force and effect.

3.4. Among others, the CPP provided for the following:

a) Duly appointed officers occupying the following position shall be entitled to service vehicles;

b) DFP General Manager/DFP Deputy General Manager - upon assumption of office;

c) Division Managers – upon completion of probationary period/regularization if newly hired; or upon assumption of the position in case of promotion;

d) All other Managers in the category of Department Managers and Store Managers – upon recommendation of their respective Division Managers subject however to the approval of the General Manager;

e) The following limits shall be observed in the assignment of service vehicles:

General Manager	-	P1.2 million
Deputy General Manager	-	P1.0 million
Division Manager	-	P0.800 million
Department Manager	-	P0.600 million

f) All other expenses of maintenance, gasoline, registration and major or minor repairs incurred for the use of the vehicles shall be for the account of the end-user;

g) The title to the vehicle shall be transferred to the end-user at the end of the lease period subject to the payment of equity on the cost of the vehicle as follows; and

General Manager/Deputy General Manager	-	10 per cent
Division Manager	-	20 per cent
Department Manager	-	40 per cent

h) In case of resignation/retirement, the manager may purchase the vehicle upon assumption of the balance provided, that he has been in the service of DFP for at least two years.

3.5. The CPP was approved by the Board under Board Resolution No. R-4-2-8-2012 dated August 2, 2012.

3.6. Review of Other Personnel Benefit-Fringe Benefit account disclosed that for CY 2016, DFPC incurred the total amount of P5.200 million for the payment of the car plan benefits of DFPC executives and managers.

3.7. The amended car plan benefit was implemented when DFPC was declared a Government Owned and Controlled Corporation (GOCC) under Republic Act (RA) No. 9593 otherwise known as Tourism Act of 2009. The amendments on the original guidelines and procedures of the CPP as approved by the DFPC Board of Directors on August 2, 2012 were considered as additional benefits granted to the officers/availees. Since, the car plan benefit is not a regular benefit given in the government sector, it needs approval from the OP.

3.8. The grant of the Car Plan Benefit without the approval from the OP is contrary to Section 3 of Memorandum No. 20, dated June 25, 2001 and Section 5 of PD No. 1597, thus, may be considered as irregular expenditures under Section 3.1 of COA Circular No. 2012-003 dated October 29, 2012 on the updated guidelines on the Prevention of Irregular, Unnecessary, Excessive, Extravagant and Unconscionable expenditures (IUEEU).:

Section 3 of Memorandum No. 20 dated June 25, 2001 states:

> *"Section 3. Any increase in salary or compensation of GOCCs/GFIs that are not in accordance with the Salary Standardization Law shall be subject to the approval of the President."*

Section 5. of PD No.1597 states:

> *"Allowances, Honoraria, and Other Fringe Benefits.* Allowances, honoraria and other fringe benefits which may be granted to government employees, whether payable by their respective offices or by other agencies of government, shall be subject to the approval of the President upon recommendation of the Commissioner of the Budget. For this purpose, the Budget Commission shall review on a continuing basis and shall prepare, for the consideration and approval of

the President, policies and levels of allowances and other fringe benefits applicable to government personnel, including honoraria or other forms of compensation for participation in projects which are authorized to pay additional compensation."

Section 3.1 of COA Circular No. 2012-003 states:

3.1 *Definition*

"The term "irregular expenditure" signifies expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that gained recognition in laws. Irregular expenditures are incurred if funds are disbursed without conforming with prescribed usages and rules of discipline. There is no observance of an established pattern, course, mode of action, behavior, or conduct in the incurrence of an irregular expenditure. A transaction which fails to follow or violates appropriate rules of procedure is, likewise, irregular."

3.9. This observation had been brought to the attention of DFPC management per Audit Observation (AOM) No. 2013-006 dated May 8, 2014 and was included in our Annual Audit Report for CY 2013. Our audit disclosed that DFPC incurred the total amount of P10.197 million in CY 2013 for the acquisition of vehicles for the Car Plan of Executives and Officers, also without the approval from the OP. To date, however, the required approval from the OP has not been submitted.

3.10. In his Memorandum dated May 13, 2014, reply to the abovementioned AOM, the former COO commented that: "the Car Plan Benefit is an existing benefit being granted to and enjoyed by the DFPC Executives/Officers long before the Supreme Court held in CY 2006 that DFP employees are subject to Civil Service rules. Hence, no increase was involved. Also, DFPC has not given any increase in salaries and allowances since CY 2005, such that the Program is not violative of Memorandum No. 20, series of 2001. Moreover, in compliance with Governance Commission for Government Owned and/or Controlled Corporations (GCG) directives pursuant to RA No. 10149, the list of allowances being granted to DFPC employees including Car Plan Benefits was submitted to the GCG for its inclusion in the Compensation and Position Classification System (CPCS) now already formulated by the said agency to govern all GOCCs.

3.11. It is noted, that the CPP's inclusion in the CPCS to the list of allowances submitted to the GCG is still pending approval by the GCG. Moreover, since the Car Plan benefit is not a regular benefit granted in the government sector, DFPC should have secured an approval from the OP at the time it was declared as GOCC under RA No. 9593 in compliance with Memorandum Order No. 20 dated June 25, 2001 and Section 5 of PD No. 1597.

3.12. **We reiterated our previous recommendation that Management comply with Section 3 of Memorandum No. 20, dated June 25, 2001 and Section 5 of PD No. 1597 and seek/submit approval from the OP for the Car Plan Benefits of DFPC.**

3.13. Management submitted the following comments:

a) The CPP of DFPC was conceived in 1995 based on the guidelines issued in 1995. Due to the Asian crisis, the CPP was informally suspended until it resumed based on the amended guidelines approved on March 18, 2003 by the former General Manager. The amended guidelines provided that expenses for maintenance, gasoline, registration and major or minor repairs incurred for the use of the vehicle shall be for the account of the end user. It likewise provided the limits in the cost of the vehicle to be acquired by DFPC and the transfer of ownership of the vehicle at end of the lease period subject to the payment of equity depending on the level of the manager.

b) As part of the regular review to find ways to cut on cost, in December 2007, the mode of acquisition of vehicles covered by CPP was changed from lease purchase in the name of DFP to purchase through an approved car financing/loan in the name of the manager payable over a period of 36 months. This mode of acquisition imposes upon the manager to pay on a monthly basis a part of the purchase price of the vehicle as equity based on the 2003 guidelines and shoulder the maintenance and repair costs, fuel and gasoline and other incidental expenses necessary to keep the vehicle in good running condition. Currently, DFPC does not advance the cost for chattel mortgage and the cost of registration, if any, and the premium for comprehensive insurance should the cost of the vehicle exceed the limit as provided in the guidelines.

c) This arrangement was confirmed by the DFPC Board in its Resolution No. R-4-2-8-2012. It should be stressed that there was no increase in the benefits of the employees, in fact the cost of repair and/or maintenance which used to be the account of DFPC has been shifted to the end-user.

d) Moreover, the GCG per their letter dated October 4, 2013 addressed to the former COO, states that and we quote:

> *"We ensure that while DFPC moves into the CPCS, it is a hallmark principle therein that there will be no diminution of all authorized salaries and authorized benefits that the officers and employees of DFPC are entitled to*."

e) Further Executive No (EO) No. 203 series of 2016 particularly Section 8 in Transitory Provision states that:

> "*Notwithstanding the effectivity of CPCS, all GOCCs that have not been subjected to rationalization or reorganization and those covered by pending recommendations from GCG for abolition, dissolution or privatization, shall maintain their current compensation framework."*

f) Considering that CPP has been an established benefit as early as 1995, the promulgation of the Mojica ruling and enactment of RA No. 9593 in 2009, and has been allowed by the GCG, Sec. 3 of Memorandum Circular No. 20 dated June 25, 2001 does not apply.

3.14. **Auditor's Rejoinders**

a) We maintain our recommendation that DFPC comply with Section 3 of Memorandum No. 20 dated June 25, 2001 and Section 5 of PD No. 1597 and seek/submit approval from the OP for the Car Plan Benefits;

b) Without the approval from the OP, DFPC should stop granting CPP to Executives and Managers; and

c) In CY 2012, DFPC had been declared a Government Corporation. Moreover, the DFPC Board does not have an absolute power to approve the said benefit. Approval from the OP is still necessary under Memorandum No. 20 dated June 25, 2001 and Section 5 of PD No. 1597.

4. Executives and managers who availed of the Car Plan Benefits were also granted monthly transportation allowance totaling P2.251 million for CY 2016, contrary to the provisions of National Budget Circular (NBC) No. 548 dated May 15, 2013 and COA Circular No. 99-002 dated June 15, 1999 and paragraph IV of the CPP Guidelines.

Item 5.2.3 of National Budget Circular issued on May 15, 2013 provides that transportation allowance shall not be granted to officials and employees who are assigned or presently use government motor transportation.

COA Circular No. 99-002 dated June 15, 1999 states that:

> *"The prohibition against collection of transportation allowance when the office is assigned a vehicle shall apply only to the head of the agency, unless the head of the agency specifically assigns a vehicle to a particular official under him or to a particular unit under said official, when there are more than one vehicle assigned to the agency; in which case, the said official who himself or whose unit under him has been assigned a vehicle shall not be entitled to transportation allowance.*
>
> *Where the head of the agency does not specifically assign a vehicle to a subordinate official entitled to transportation allowance, or to the unit or division of the said subordinate official, the latter shall be allowed to collect the transportation allowance but shall refund the proportionate amount thereof wherever he avails of a government motor vehicle, corresponding to the number of days he has used the said government vehicle".*

Paragraph IV of the CPP Guidelines states that:

"*IV Maintenance Costs and other expenses:*

> *All expenses for maintenance, gasoline, registration and major and minor repairs incurred for the use of the vehicle shall be for the account of the end-user (underscoring supplied)".*

4.1. Review of the remuneration received by the DFPC executives and managers disclosed that officers/availees of the CPP were provided with monthly transportation allowance (TA). For CY 2016, the DFPC incurred a total amount of P2.251 million for TA of its executives and managers.

4.2. **We recommended that Management:**

a) **Stop the payment of the Transportation Allowance (TA) to car plan availees if the CPP is approved by the OP;**

b) **Reverse TA expenses to Accounts Receivable - Executives and Managers if DFPC is able to secure approval of the CPP from the OP; and**

c) **Without the CPP approval, grant only the monthly transportation allowance and not the CPP to DFPC Executives and Managers.**

4.3. Management submitted the following comments:

a) As provided in the CPP, the manager shall share by way of equity a portion of the acquisition cost to be paid in cash or through an approved car financing program over a period of 36 months including the chattel mortgage, and shoulder all operational expenses, such as fuel, repair, maintenance, registration, among others, for the use of vehicle;

b) The TA granted to manager is used to cover the cost as enumerated above which amount may exceed the TA granted taking into account the unstable/increasing cost of fuel, parts for repair/replacement and maintenance; and

c) Also, the vehicles described in COA Circular No. 99-002 are those procured and maintained by the company for its own account and does not require end-user to spend any amount for repairs, maintenance, gasoline and other expenses to keep the vehicle in running condition. If such vehicle is assigned to the manager, then the grant of TA may not be justified.

4.4. **Auditor's Rejoinder**

We maintain that DFPC Executives and Managers who are CPP availees are not entitled to transportation allowance pursuant NBC No. 548 dated May 15, 2013.

5. **Policies and/or operating guidelines as basis for the determination of the amount of fixed consideration due from the concessionaires for rent, utilities, maintenance, security and investment on leasehold improvement was not properly set, but was based only on the area occupied by the concessionaires, thus, the reasonableness of the amount of consideration could not be established.**

5.1. The Supply and Delivery Agreement (SDA) entered into by and between DFPC and the Concessionaires states that concessionaires shall, within the first five days of each month, remit to DFPC a fixed consideration which shall be utilized to reimburse the cost of utilities, maintenance, security and investment on leasehold improvement by the DFPC.

5.2. Our analysis on the fixed considerations for CY 2016 disclosed that these were applied as reversal of expenses on Rent-Building, Rent-CPF, Electricity, Telephone, Security Services and Salaries.

5.3. As of December 31, 2016, the fixed considerations remitted by concessionaires to DFPC amounted to P290.491 million. The correctness of the allocation to cost of utilities, maintenance, security and/or investment on leasehold improvement could not be ascertained since there are no specific guidelines to serve as the basis for the computation of the fixed consideration. Verbal inquiry revealed that the basis used for the distribution of the fixed consideration is the area occupied by the concessionaires. Other factors for variable expenses (electricity, water, telephone) such as number of persons occupying the space, type and number of furniture, fixtures and equipment, as well as the type and volume of merchandise held for sale, were not considered.

5.4. Management furnished us with the monthly breakdown of the fixed consideration for 2016. Table 1 below provides for the annual breakdown of fixed consideration based on the monthly rate submitted to us:

Table 1

Conces-sionaire	Rent	Electricity	Janitorial	Security	Others	Total
A	13,174,034	5,911,630	1,734,474	4,979,862	600,000	26,400,000
B	79,942,110	11,631,234	3,650,905	10,190,951	0	105,415,200
C	3,227,308	358,352	233,739	380,601	0	4,200,000
D	1,568,934	327,897	120,237	381,732	600,000	2,998,800
E	9,605,820	4,333,978	1,126,947	1,315,281	**0**	16,382,026
F	17,336,783	7,759,303	2,272,078	4,028,362	0	31,396,526
G	17,972,129	7,784,476	2,595,689	6,879,572	625,440	35,857,306
H	5,676,637	3,812,161	844,390	1,510,811	0	11,843,999
I	148,597	87,943	31,434	84,916	44,011	396,901
J	3,072,241	393,455	378,506	565,798	0	4,410,000
K	26,943,536	9,518,462	2,638,145	4,178,934	843,800	44,122,877
Total	178,668,129	51,918,891	15,626,544	34,496,820	2,713,251	283,423,635

Table 2 below provides the actual application of Fixed Consideration for the CY 2016:

Conces-sionaire	Rent Expense-Building	Rent Expense-CPF	Electricity	Tele-phone	Security Services	Salaries	Total Fixed Consideration for the Year	Fixed Consideration not charged
A		25,870,892		31,798	308,490	299,723	26,510,903	Rent Expense-Building & Electricity
B		100,082,336		86,994	363,012	2,643,435	103,175,777	Rent Expense-bldg &Electricity
C		3,759,667	3,429	17,359	405		3,780,860	Rent Expense-bldg. & Salaries
D		3,026,625					3,026,625	Rent Expense-Bldg, Electricity, Security & Salaries
E	15,838,849			17,359	712		15,856,920	Rent Expense-CPF, Electricity & Salaries
F	31,107,067		3,429	34,719			31,145,215	Rent Expense-CPF, Security & Salaries
G	35,183,355		3,429	7,220	9,612,042	390,015	45,196,061	Rent Expense-CPF
H	12,212,766			17,359	46,001		12,276,126	Rent Expense-CPF, Electricity & Salaries
I		388,465					388,465	Rent Expense-Building, Electricity, Security & Salaries
J		4,485,769	3,429	17,359	354,065		4,860,622	Rent Expense-Bldg & Salaries
K		44,241,360		31,798			44,273,158	Rent Expense-bldg., Electricity, Security & Salaries
Total	**94,342,037**	**181,855,114**	**13,716**	**261,965**	**10,684,727**	**3,333,173**	**290,490,732**	

5.5. As a policy under Table 1 above, all expenses included in the breakdown of fixed considerations were applied/charged to all concessionaires. We noted that the total actual expenses of the concessionaires in Table 2 were almost the same with the estimated expenses in Table 1. However, we observed that actual expenses for CY 2016 per Table 2, were not allocated to the proper expense accounts, computed based on area occupied by the concessionaires per Table I. Not all types of expenses were allocated to the concessionaires.

5.6. Since the fixed consideration is intended to reimburse DFPC for the share of the concessionaire in operating expenses, such as utilities, maintenance, security and/or investment on leasehold improvement, a basis for the computation of the amount of said expenses consumed by the concessionaires should be fixed/established, to serve as tool in the review and determination of the reasonableness of the amount of consideration from time to time.

5.7. This observation had been brought to the attention of DFP Management per AOM No. 2009-17 dated June 15, 2010 and was included in our Annual Audit Report for CY 2009. To date however, no specific guidelines have been established.

5.8. In our letter addressed to the COO dated November 14, 2016, one of our requests is the operating guidelines in the computation of fixed consideration of concessionaires. In his letter-reply dated November 18, 2016, the COO informed us that there are no written guidelines in the computation of fixed consideration, however, management is in the process of reviewing the components of the fixed consideration to come-up with the framework.

5.9. In this regard, may we request that the COA team be furnished with the framework for the SDAs established by management.

5.10. **We recommended that Management:**

a) Formulate operating guidelines/policies that will serve as the basis of computation of the consideration due from concessionaires and properly allocate expenses as to rent, utilities, maintenance, security and/or investment on leasehold improvement;

b) Consider other factors affecting variable expenses such as number of persons occupying the space, type and number of furniture, fixtures and equipment, as well as the type and volume of merchandise held for sale in the determination of a reasonable cost to be shouldered by the concessionaires; and

c) Clarify the basis on the allocation of fixed considerations to the actual expense accounts for CY 2016. Make adjustments if necessary.

5.11. Management submitted the following comments:

a) Guidelines for the Establishment of Fixed Consideration for SDA was formulated effective January 1, 2017 and will be applied in all new contracts, new locations and renewal subject to a review to adapt to a changing business environment;

b) The Framework enumerates all occupancy costs and all other costs (expense accounts) related to allocated areas. Areas that are not allocated to suppliers/categories nor marked for specific purpose by DFPC shall form part of the Common Area;

c) Costs associated with the use of special equipment (such as chiller) shall be considered in the calculation of the above costs; and

d) Paragraph B.III. of the Framework presents the computation in order to arrive at Fixed Consideration Rate per square meter to be used for both allocated space and common areas.

5.12. **Auditor's Rejoinder**

We appreciate the efforts of DFPC in formulating the guidelines for the Establishment of Fixed Consideration for SDAs. We have noted, however, that the Guidelines which will form part of the policies of the Corporation have no approval by the DFPC Board of Directors hence, the guidelines should be approved by the Board of Directors.

6. Procurement for the construction of DFPC basketball covered court with an Approved Budget of P6.442 million was not adequately and carefully planned, contrary to Section 7 Rule II, Section 17.6 Rule VI and the covering Annex A of the Implementing Rules and Regulations (IRR) of RA No. 9184, thus, defeating the purpose of the project due to unfinished construction.

6.1. Section 7 Rule II and Section 17.6 Rule VI of the IRR of Republic Act (RA) No. 9184 states that:

> "All procurement should be meticulously and judiciously planned by the procuring entity"
>
> Rule VI Section 17.6
>
> *"No bidding and award of contract for infrastructure projects shall be made unless the detailed investigation, surveys, and design of the project have been sufficiently carried out and duly approved in accordance with the standards and specifications prescribed by the Head of the Procuring Entity and in accordance with the provisions of the Annex A of the IRR."*

6.2. Audit of contracts revealed that DFPC entered into an agreement with a conractor on November 26, 2015 amounting to P3.800 million for the construction of DFPC's Basketball Covered Court, to serve as a venue of DFPC's sports/athletic and other activities. The Notice to Proceed which was issued on December 4, 2015 required that the project must be completed within 70 calendar days after receipt thereof by the contractor. Excavations on the old basketball court/project were then made by the contractor to begin the outlaying of the foundation for the proposed covered court.

6.3. Annex A of the IRR provides that no program of work for any project shall be approved without detailed engineering which shall include, among others, the soils and foundation investigation. The soil investigation aims to provide foundation design parameters or allowable bearing capacity for the covered court as well as provide data to qualify and quantitatively assess the engineering properties needed in the structure's foundation.

6.4. We noted, however, that the soil testing made by an engineering services on November 23, 2015 was not taken into consideration by DFPC when the contract was awarded and the Notice to Proceed was issued to the contractor. The report on soil testing/analysis revealed that the project site is underlain by an uppermost layer which has a very low bearing capacity and susceptible to liquefaction in the event of strong earthquake.

6.5. Consequently, on August 9, 2016, DFPC awarded another contract amounting to P2.642 million to the same contractor for the Enhancement of Structural Foundation of the proposed project, which should be completed within 49 calendar days. The Contract Agreement Form, however, was not signed and finalized by

DFPC Management, therefore, the Notice of Award was not acknowledged by the contractor.

6.6. An ocular inspection was conducted on the project site on October 2016 and noticed that the construction of the DFPC Basketball Covered Court had not resumed. The project which has full of construction debris and excavations, had been discontinued for more than one year already, thus defeating the purpose of the project. This also resulted in the waste of funds due to the destruction of the old basketball court and the site could no longer be used.

6.7. The delay in the completion of the project could have been avoided had Management carefully and adequately planned the procurement for the construction of the DFPC Basketball Covered Court in compliance with Section 7 Rule II and Section 17.6 Rule VI and the covering Annex A of IRR of RA No. 9184.

6.8. **We recommended that Management:**

a) Submit action plan on the unfinished construction of the basketball court to be of use and avoid wastage of funds on the project; and

b) Comply strictly with Section 7 Rule II, Section 17.6 Rule VI and the covering Annex A of the IRR of RA No. 9184 on infrastructure projects to avoid delay in the completion thereof.

6.9. Management submitted the following comments:

a) DFPC's Bids and Award Committee (BAC) has complied with the provisions of RA No. 9184 and its IRR for bidding out the construction of DFPC Basketball Court in 2015 and the Enhancement of the Structural Foundation in 2016. It was unfortunate that the said projects were not fully implemented because it was overtaken by the transition of Management brought about by the change in administration of the Republic of the Philippines;

b) Their plan is to combine the scope of work of the two projects and bid it out and implement it as a whole so they could use it soon for future corporate events. Their timetable is from March 2017 and expected to be completed by November 2017, barring any unforeseen events or situations beyond their control; and

c) They will continuously comply with all the provisions of the Government Procurement Law particularly Rule II, Section 7 and Rule VI Section 17.6 to avoid delay in the completion thereof as long the situations are within the normal condition.

7. The Gender and Development Program and Budget (GADPB) of DFPC was not in accordance with the Philippine Commission on Women (PCW)-National Economic Development Authority (NEDA)-Department of Budget and Management (DBM) Joint Circular No. 2012-01

7.1. **Review of the Fiscal Year 2016 annual GADPB of DFPC disclosed that it was not submitted to the DOT, the Agency's mother unit, for review, contrary to paragraph 8.0 of the PCW-NEDA-DBM Joint Circular No. 2012-01.**

7.1.1. **We recommended that Management submit the DFPC GAD Plan and Budget to the DOT for review in consonance with PCW-NEDA-DBM Joint Circular No. 2012-01.**

7.1.2. Management commented that:

a. DFPC is in the process of introducing Gender and Development (GAD) to the officers and employees of the DFPC. Two GAD orientation sessions lined-up, to be able to promote a more gender-responsive Management, thus be able to accelerate mainstreaming of GAD.

b. Their GAD Focal Point Persons (GFP), who have been attending trainings and Seminars at the DOT, have informed them that their Gender Mainstreaming (GM) is still not in place and that they are still in the process of educating and increasing awareness to Management and employees as well.

7.2. **DFPC did not allocate at least five per cent of its DBM approved corporate operating budget and did not determine the regular activities and their cost which may be embedded in the GAD Plans and Programs (GPBs) to form part of the five per cent requirement, contrary to RA No. 9710 and paragraph 6.1 of PCW-NEDA-DBM Joint Circular No. 2012-01.**

7.2.1. RA No. 9710 otherwise known as the Magna Carta for Women (MCW) provides that all government agencies including GOCCs shall formulate their annual GPBs within the context of their mandates to mainstream gender perspectives in their policies, programs, activities and projects (PAPs). GAD planning shall be integrated in the regular activities of the agencies and the cost of the implementation of which shall be at least five per cent of the Agency's total budget appropriation. The GAD budget does not constitute an additional budget over the agency's total appropriations.

7.2.2. Review of the FY 2016 GPB disclosed that DFPC had appropriated a total of P12.556 million for GAD which is 0.4931 per cent of the P2.546 billion Corporate Operating Budget (COB) approved by the DBM.

7.2.3. PCW-NEDA-DBM Joint Circular No. 2012-01 mandates that at least five per cent of the Agency's approved COB should be allocated for GAD while the mandatory budget for GAD of DFPC is P127.314 million, actual disbursement for GAD related activities is P3.168 million or 25 per cent of the P12.556 million allocated for the FY 2016 GPB. The table below provides for the computation:

Particulars	In Philippine Peso
Total budget for GAD per GPB	12.556 million
DBM approved COB	2.546 billion
Budget allocation for GAD = 5 per cent of COB	127.314 million
Percentage of FY 2016 GAD budget over budget allocation (P12.556/P127.314)	9.87%
Percentage of CY2016 GAD budget over COB (P12.556 million/P2.546 billion)	0.4931%
Accomplishment in % (P3.168 million/ P12.556 million)	25.23%

7.2.4. We noted that the GAD plan did not include regular activities which may be embedded in the GAD Plans and Programs to meet the five per cent requirement. DFPC did not determine the regular activities and their cost which may be considered as GAD related activities, programs and projects to form part of the 5five percent requirement, such as the following:

- GAD related advertising, publication and promotional items;
- Proportionate salary of Agency personnel assigned to plan, implement and monitor GAD programs, activities and projects;
- Expenditures for supplies and materials pertaining to GAD programs and projects;
- Procurement of equipment or capital outlay necessary for an identified gender issue and the project was approved by PCW;
- Cost of activities sponsored by private companies and concessionaires that entailed no cost by DFPC.

7.2.5. **We recommended that Management:**

a) Allocate at least five per cent of DBM approved COB for the formulation of the annual GAD Plan and Programs to mainstream gender perspective in the DFPC's policies and PAPs which shall be an integrated part of the regular operations/activities of the Agency and the cost of implementation of which form part of the five per cent of the COB in consonance with the abovementioned Joint Circular; and

b) **Submit a copy of the Annual GAD Plan and Budget to the COA Audit Team within five working days from receipt of the approved plan from the PCW or from the DOT.**

7.2.6. Management commented that DFPC is still in the process of introducing GAD to the officers and employees of the DFPC. Moreover, due to fiscal realities, DFPC is also in the process of cutting down expenses and Management has chosen to allocate its limited resources to activities and program that directly contribute in attaining two of its main Strategic Objectives, namely, Grow Revenue and Self-Sustaining Financial Viability. The Agency has allocated more resources to improving/renovating its stores and in aggressive advertising to increase foot traffic into said stores, nevertheless, DFPC managed to conduct activities with corresponding budgetary expenses that promote growth and well-being of their employees.

7.3. **The DFPC GAD Accomplishment Report (AR) did not follow the prescribed form in Annex A of PCW-NEDA-DBM Joint Circular No. 2012-01.**

7.3.1. The GAD AR including the utilization of the GAD Budget was not prepared by DFPC based on the PCW-endorsed by GPB following the form prescribed in Annex A of the PCW-NEDA-DBM Joint Circular No. 2012-01.

7.3.2. **We recommended that Management prepare the Agency's Annual GAD AR should in the prescribed form.**

7.3.3. Management commented that DFPC shall comply with the submission of its 2017 Annual GAD Accomplishment Report in the prescribed form.

7.4. **The GAD Focal Point System (GFPS) of the Agency was not created contrary to Rule VI, Section 37C of the MCW-IRR and Philippine Commission on Women (PCW) Memorandum Circular (MC) No. 2011-01 dated October 21, 2011.**

7.4.1. **We recommended that Management create the GFPS of the Agency pursuant to Rule VI, Section 37C of the MCW-IRR and PCW MC No. 2011-01 dated October 21, 2011.**

7.4.2. Management commented that DFPC has already assigned GFPS who are tasked to establish GAD projects and activities and other gender related programs. To further strengthen GAD, DFPC shall undertake an aggressive program to accelerate gender mainstreaming.

8. Compliance with Tax Laws

8.1. DFPC has been consistently withholding and remitting taxes on salaries and wages and other benefits due from its officers and employees as well as on procurement of goods and services to the Bureau of Internal Revenue (BIR) for

CY 2016. Due to BIR as of December 31, 2016 were remitted to the Bureau, as follows:

Taxes Withheld	Due to BIR as of December 31 2016	Date Remitted
Corporate Tax	5,399,820.08	January 13, 2017
Contractors Tax	30,067.02	January 8, 2017
Individual Tax	51,751.82	January 13, 2017
VAT on Purchases	1,309,402.60	January 8, 2017
VAT on Services	5,220,211.88	January 8, 2017
Employees Withholding Tax	2,000,869.20	January 13, 2017
Fringe Benefits Tax	483,336.12	April 10, 2017
Total	**14,495,458.72**	

9. **Government Service and Insurance System (GSIS) Philippine Health Insurance Corporation (PHIC) and Pag-ibig Contributions and Remittances**

9.1 Since the DFPC is still in transition stage from a sector of Philippine Tourism Authority (PTA) to a corporate entity, accordingly, contributions to GSIS started on January 1, 2016. Nevertheless, the Corporation is compliant with GSIS guidelines on collections and remittances of contributions pursuant to RA No. 8201, otherwise known as the GSIS Act of 1997. It is also consistently withholding and remitting contributions to PHIC and Pag-ibig Fund. Contributions for December 2016 were remitted as follows:

Agency	Due as of December 31 2016	Date Remitted
GSIS	1,546,278	January 9, 2017
PHIC	919,009	January 9, 2017
Pag-ibig	235,088	January 9, 2017

9.2 DFPC's contributions to other government agencies are provided below:

Government Agency	Particulars	Amount
Manila International Airport Authority	Concession Privilege Fee	570,626,522
Bureau of Customs	Sin Tax/VAT on Liquors and Cigarettes	554,068,298
Department of Tourism	Mandatory contributions per RA No. 9593	170,678,363
Clark International Airport Authority	Concession Privilege Fee	6,551,120
Civil Aviation Authority of the Philippines	Concession Privilege Fee	48,000
Total		**1,301,972,303**

10. Status of Disallowances, Charges and Suspensions

10.1. As of December 31, 2016, the DFPC has no unsettled suspensions, disallowances, and charges. The Supreme Court in its decision dated July 12, 2016 partly granted the petition and modified the August 17, 2011 COA Decision No. 2011-059 as regards Notice of Disallowance No. ND PTA 2006-001 dated July 13, 2006, such that officers who approved and employees who received the 14th month bonus are not personally liable to refund the disallowed amount. On January 26, 2017 the Deputy Clerk of Court in a letter of transmittal address to the COA Chairperson, informed that the Supreme Court En Banc issued an Entry of Judgment that the July 12, 2016 SC decision has become final and executory and at the same time lifted the Temporary Restraining Order (TRO) issued in April 22, 2014.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of the five prior year's audit recommendations, two were fully implemented, one partially implemented and two were not implemented as shown below:

Reference	Observation	Recommendation	Status of Implementation
2015 AAR AO No.1 Page 26	1. Cash advances granted to Accountable Officers (AOs) for special projects activities amounting to P0.874 million remained unliquidated as of December 31, 2015, contrary to the provisions of Sections 5.8 and 5.9 of Commission on Audit (COA) Circular No. 97-002, understating expenses for the unliquidated amount.	We recommended that Management require the AOs to liquidate all cash advances for special projects upon completion of the project and/or at year-end and conform strictly with the provisions of COA Circular No. 97-002.	Fully Implemented
2015 AAR AO No.2 Page 26	2. The granting, utilization and liquidation of Petty Cash Fund and Revolving/Change Funds of Duty Free Philippines Corporation (DFPC) were not in accordance with the provisions of COA Circular No. 97-002 dated February 10, 1997 as amended by COA Circular No. 2006-005 dated July 13, 20016, exposing to unnecessary risk of misuse of funds.	We recommended that Management: a) Comply with the provisions of Sections 4.1.6 and 6.1 of COA Circular No. 97-002; and b) Set policy/guidelines for a ceiling amount of Revolving/Change Funds to be maintained by the AOs of the regional stores, that which are reasonable compared with ADGS.	Fully Implemented
2015 AAR AO No.3 Page 29	The six provincial outlets of DFPC did not attain their objectives to generate enough revenue as mandated in Executive Order (EO) No. 46, due to the losses incurred in CY 2015 amounting to P31.945 million, which is 32.33 per cent or P7.804 million higher than the losses of P24.141 million incurred in CY	We reiterated our recommendations that Management: a. Adopt a risk assessment and management process and review expenditures with material amounts/significant increases to find out their	Not Implemented

Reference	Observation	Recommendation	Status of Implementation
	2014.	impact on sales and other accomplishments; b. Evaluate effectiveness of the store locations and determine if it is necessary to find a better or strategic area which is more accessible to customers; and Include provision of commitment in the Supply and Delivery Agreements with concessionaires to deliver/provide a wider array of merchandise for sale in all the provincial outlets.	
2015 AAR AO No.4 Page 33	3. The disposals of expired/damaged merchandise intended for sale amounting to P28.194 million deprived DFPC opportunity income in the amount of P5.270 million.	We recommended that Management come up with better strategies to avoid disposal/condemnation of merchandise, in coordination with the concessionaires. Revisit policies on promotion/sale of products and evaluate further the following: a. Inventory turnover to find out salable items and avoid overstocking of the products; b. The strengths and weaknesses of the product in the current market to determine its salability; and c. The current procedure in the handling and storage to determine the causes of melted/molded	Not Implemented

Reference	Observation	Recommendation	Status of Implementation
		products and broken, damaged or dented containers; and undertake remedial measures.	
2015 AAR AO No.5 Page 36	4. DFPC did not prepare a Gender and Development (GAD) Plan and Budget for CY 2015 contrary to RA 9710 but implemented various GAD activities, most of which were conducted jointly with suppliers/sponsors, that entailed no cost on the part of DFPC.	We recommended that Management: a. Prepare the GAD Plan and Budget to address the gender issues in the agency and identify GAD related activities which are mainstreamed in the regular operations/ activities that can be considered sufficient compliance with said requirements; and b. Continue the implementation and sponsorship of GAD related activities in consonance with RA No. 9710 or the Magna Carta for Women.	Partially Implemented