Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

ANNUAL AUDIT REPORT

on the

DUTY FREE PHILIPPINES CORPORATION

For the Year Ended December 31, 2017

EXECUTIVE SUMMARY

A. Introduction

Duty Free Philippines (DFP) was established as a sector of Philippine Tourism Authority (PTA) to exclusively manage and operate duty free stores under Section 1.2 of Tourism Administrative Order No. 89-04 which granted the exclusive authority to PTA to operate duty free shops to 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) with the mandate 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 revenues for the government as established by the Department of Tourism under Executive Order (EO) No. 46.

Under Sec. 93 of R.A. No. 9593, the DFPC shall have an authorized capitalization of P500 million, to be fully subscribed by the national government. It 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 R.A. No. 7656, 70 per cent of which shall be for the account of 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 resulting in DFPC's transition from a sector of PTA to a government corporate entity.

The DFPC is headed by Mr. Vicente Pelagio A. Angala, as the Chief Operating Officer (COO) and is governed by a Board of Directors. As of December 31, 2017, DFPC had total workforce of 1,179 personnel composed of one appointee, one coterminous, 893 regular and 262 job order status personnel.

DFPC's operating stores are located at the Fiesta Mall, Paranaque City, NAIA Terminals 1,2 and 3, all in Pasay City, Mactan International Airport, Cebu Waterfront Hotel, Davao International Airport, Newport Mall Resorts World, Pasay City, Kalibo International Airport, Clark International Airport, Pampanga, Iloilo International Airport, and Silay International Airport, Bacolod City.

B. Operational Highlights

For Calendar Year (CY) 2017, DFPC fulfilled its mandate under R.A. No. 9593 of generating foreign exchange and revenues for the government as follows:

CY 2017 Summary of Contributions to Various Government Agencies

Government Agency	Particulars	Amount
Manila International Airport Authority (MIAA)	Concession Privilege Fee	P 772,581,049
Bureau of Customs (BOC)	Sin Tax / Value Added Tax	497,061,180

Department of Tourism (DOT)	Mandatory Contribution per RA 9593	78,272,466
Bureau of Internal Revenue (BIR), Department of Trade & Industry (DTI), National Bureau of Investigation (NBI) & BOC	Taxes on fringe benefits, rentals, interest, warehousing bonds, import processing fees and other fees, filing fee for refund/issuance of tax credit	7,459,131
Clark International Airport Corporation	Concession Privilege Fee	9,803,741
Civil Aviation Authority of the Philippines	Concession Privilege Fee	705,762
Total		**P1,365,883,329**

Financial Highlights (In Philippine Peso)

Shown below are the comparative financial position and financial performance of DFPC for CYs 2017 and 2016.

Comparative Financial Position

Particulars	2017	2016 As restated	Increase (Decrease)
Assets	3,385,273,658	2,873,792,746	511,480,912
Liabilities	2,769,167,971	2,326,339,199	442.828.772
Equity	616,105,687	547,453,547	68,652,140

Comparative Financial Performance

Particulars	2017	2016	Increase / (Decrease)
Income	11,012,751,619	10,595,601,137	417,150,482
Expenses	10,833,035,041	10,459,220,529	373,814,512
Net Income	179,716,578	136,380,608	43,335,970

Budget and Actual Expenses

Particulars	Per COB	Actual	Variance
Personal Services	471,259,000	618,729,852	(147,470,852)
Maintenance and Other Operating	1,484,705,398	1,408,150,559	76,554,839
Capital Outlay	412,742,000	301,469,359	111,272,641
Financial Expenses	1,163,100	1,091,829	71,271
Others	9,201,017,974	8,883,335,266	317,682,708
Total	**11,570,887,472**	**11,212,776,865**	**358,110,607**

The excess of actual expenses vis-à-vis budgeted amount of P147,470,852 pertained to the accrued salary adjustments for CY 2017 brought about by DFPC's adoption of the Salary Standardization IV pursuant to Executive Order No. 36 series of 2017, the approval of which was still pending with the Governance Commission for Government Owned or Controlled Corporations (GCG).

C. Scope & Objectives of the Audit

The audit covered the examination, on a test basis, of the accounts, transactions and operations of DFPC for CY 2017 in accordance with Philippine Public Sector Standards in Auditing (PPSSA). It was aimed at expressing an opinion on the fairness of presentation of DFPC's financial position, results of operations and cash flows and at determining its compliance with laws, rules and regulations.

D. 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, 2017.

E. Significant Audit Observations and Recommendations

Below is the summary of the significant audit findings and recommendations for CY 2017 as detailed in Part II of the Report:

1. Withdrawals of merchandise by the DFPC and its concessionaires using the Gate Pass Slip (GPS) which in CY 2017 amounted to US$0.125 million or P6.254 million and US$0.267 million or P13.360 million, respectively, were considered not compliant with the requirements of COA Circular No. 2012-003 dated October 29, 2012. DFPC averred that the withdrawn merchandise were used as corporate giveaways/gifts, although the prices of the items withdrawn ranged from US$1.35 to US$4,150.

   We recommended and management agreed to:

   a) *set guidelines and limits for the withdrawal by concessionaires of merchandise for purposes of corporate gifts such as establishing a percentage based on the goods brought into/sold from the DFPC outlets;*
   b) *impose the applicable customs duties and taxes on the merchandise withdrawn from the stores specially those with commercial value; and*
   c) *submit list/s of company/promotional activities for the merchandise given by DFPC as corporate gifts/giveaways to deter issuance of a Notice of Disallowance.*

2. Department of Tourism (DOT) expenditures for: a) cost of merchandise withdrawn from the DFPC Stores; b) consultancy fees; and c) expenses for shipment of DOT donations amounting to P2.174 million, P1.600 million; and P22,893, respectively, or a total of P3.797 million were deducted from DOT's share in DFPC's net profits by the debiting the amount to account Due to Other NGAs (Trust Liabilities) - DOT contrary to the pertinent provisions of Republic Act (R.A.) No. 9593 (Tourism Act of 2009).

   We recommended and Management agreed to bill the DOT for the subject expenditures charged to the DOT-Trust Liability Account (TLA) and record the same as receivables from the DOT under account Due from Other NGAs-DOT. Henceforth, stop the practice of directly charging from DOT's share in DFPC's net profits for the cost of items withdrawn by DOT from the DFPC stores and other payments made by DFPC for and in *behalf of the DOT pursuant to the pertinent provisions of Republic Act (R.A.) No. 9593 (Tourism Act of 2009).*

3. Reimbursements made by the concessionaires for the cost of utilities, maintenance, security, and investment on leasehold improvements in the total amount of P285.221 million for CY 2017 were credited to the accounts Rent Expense-Building, Rent Expense-CPF, Electricity, Telephone, Security Services and Salaries without policies/guidelines on the proper apportionment of the reimbursements, hence, the correctness and validity of the amounts deducted from/credited to said expenses accounts could not be ascertained.

   We reiterated previous year's recommendations that Management establish the guidelines/policies for the proper allocation of the fixed considerations being charged to the concessionaires, as to rent, utilities, maintenance, security and/or investment on leasehold improvement that will serve as guide for a systematic and reasonable bases for the computation on the proper shares of the concessionaires in the said operational expenses.

4. The over-remittances of DFPC to DOT during the years 1987 to 2009 in the total amount of P697.114 million were not fully recouped despite issuance of DFPC Board Resolution No. 014-25-12, leaving a balance of P344.192 million as of end of CY 2017.

   We recommended that Management revisit Board Resolution No. 01-4-25-12 and set a fixed annual recoupment amount to enable DFPC to fully recover the remaining balance of the over remittances to the DOT.

5. DFPC could have earned an additional P810 million from the NAIA Terminal 3 Landside Stores instead of being deprived the opportunity to earn income therefrom in view of the delay in the opening and operationalization of the said store/outlet.

   We recommended and Management agreed to fast-track the construction of the fit-in-works as well as the acquisition of equipment needed for the Terminal 3 Landside Project and cause the immediate operationalization of the said outlet.

6. Peso sales totaling P0.979 million generated by the Iloilo store for eight (8) months were not deposited intact daily with the authorized government depository bank (AGDB) contrary to the requirements of Manual on the New Government Accounting System (MNGAS) resulting in the absconding of the funds by the Cashiering Operations Department Supervisor assigned to the said store/ outlet.

   We recommended and Management agreed to: a) Require Collecting Officers to strictly adhere to the regulations on the proper handling of cash particularly on the deposit of collections; b) issue demand letter to the Iloilo COD Supervisor and file appropriate charges/institute measures to recover the missing funds; and c) institute measures to safeguard collections such as the preparation of the monthly bank reconciliation statement, the regular monitoring and confirmation of sales deposits, and the conduct of periodic cash examinations by internal auditors, among others.

F. Summary of Suspensions, Disallowances and Charges

As of December 31, 2017, Notice of Suspension (NS) No. 2017-001-913(16) dated June 20, 2017 in the amount of P14,031,731.19 pertaining to the payment of car plan benefits of DFPC executives and officers for CYs 2013 and 2016, due to lack of approval from the Office of the President, said NS has matured into disallowance and the corresponding Notices of Disallowance were issued in February 2018.

G. Status of Implementation of Prior Year's Audit Recommendations

Out of the sixteen prior year's audit recommendations, five were fully implemented, six were partially implemented and five 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

Unmodified Opinion

We have audited the accompanying financial statements of Duty Free Philippines Corporation (DFPC) comprised of the Statements of Financial Position as of December 31, 2017, and the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to financial statements, including the summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects the statement of financial position of Duty Free Philippines Corporation (DFPC) as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and for such internal control as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibility

The objectives of our audit were to obtain reasonable assurance about whether the financial statements as a whole were free from material misstatement, whether due to fraud or error, and to issue an auditor's report that included our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that the audit conducted in accordance with Philippine Public Sector Standards on Auditing (PPSSA) will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended 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 considered the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The audit also included 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.

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 21.11 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 had 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

COMMISSION ON AUDIT

Audit Group F - Trading and Promotions
Cluster VI, Corporate Government Sector

April 26, 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, 2017 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
OIC - Finance Division

VICENTE PELAGIO A. ANGALA
Chief Operating Officer

DUTY FREE PHILIPPINES CORPORATION
CONDENSED STATEMENT OF FINANCIAL POSITION
(CORPORATE FUND)
AS AT DECEMBER 31, 2017

	NOTES*	2017	2016
ASSETS			
Current Assets			
Cash and Cash Equivalent	6	1,838,777,902	1,679,780,005
Receivables	8,8.3	383,448,368	278,358,079
Inventories	9	149,021,495	166,164,558
Other Current Assets	12	25,499,950	21,996,350
Total Current Assets		2,396,747,715	2,146,298,992
Non-current Assets			
Other Investments		-	1,020,199
Receivables	8	262,646,168	252,614,071
Property, Plant & Equipment	10	437,670,401	218,964,354
Intangible Assets	11	13,461,749	10,603,144
Other Non-Current Assets	12	274,747,625	244,291,986
Total Non-current Assets		988,525,943	727,493,754
TOTAL ASSETS		**3,385,273,658**	**2,873,792,746**
LIABILITIES			
Current Liabilities			
Financial Liabilities	13	1,857,381,572	1,742,916,640
Inter-Agency Liabilities	14	110,161,861	99,747,477
Trust Liabilities	15	99,480,233	97,955,605
Deferred Credits/Unearned Income	16	139,396	264,847
Other Payables	17	684,559,122	374,511,593
Total Current Liabilities		2,751,722,184	2,315,396,162
Non-current Liabilities			
Deferred Credits/Unearned Income	16	9,731,464	8,783,058
Other Payables	17	7,714,323	2,159,979
Total Non-current Liabilities		17,445,787	10,943,037
TOTAL LIABILITIES		**2,769,167,971**	**2,326,339,199**
TOTAL ASSETS LESS TOTAL LIABILITIES		**616,105,687**	**547,453,547**
NET ASSETS/EQUITY			
Government Equity			
Government Equity	18	22,622,395	22,622,395
Retained Earnings/(Deficit)	18	593,483,292	524,831,152
TOTAL NET ASSETS/EQUITY		**616,105,687**	**547,453,547**

* The notes on page 9 to 28 form part of these financial statements.

DUTY FREE PHILIPPINES CORPORATION
CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(CORPORATE FUND)
FOR THE YEAR ENDED DECEMBER 31, 2017

	NOTES*	2017	2016
Income			
Service and Business Income	19	10,999,388,630	10,586,335,457
Shares, Grants and Donations		-	-
Gains	25	11,090,332	7,934,741
Other Non-Operating Income	26	2,272,657	1,330,939
Total Income		**11,012,751,619**	**10,595,601,137**
Expenses			
Personnel Services	20	618,729,851	470,267,638
Maintenance and Other Operating Expenses	21	1,408,150,561	1,493,847,010
Financial Expenses	22	1,091,829	741,425
Direct Costs	23	8,780,029,646	8,458,768,752
Non-Cash Expenses	24	25,033,154	35,595,704
Total Expenses		**10,833,035,041**	**10,459,220,529**
Profit/(Loss) Before Tax		179,716,578	136,380,608
Income Tax Expense/(Benefit)		-	-
Profit/(Loss) After Tax		**179,716,578**	**136,380,608**
Net Assistance/Subsidy/(Financial Assistance/ Subsidy/Contribution)		-	-
Net Income/(Loss)		**179,716,578**	**136,380,608**
Other Comprehensive Income (Loss) for the period		-	-
Comprehensive Income (Loss)		**179,716,578**	**136,380,608**

* The notes on page 9 to 28 form part of these financial statements.

DUTY FREE PHILIPPINES CORPORATION
STATEMENT OF CHANGES IN EQUITY
(CORPORATE FUND)
FOR THE YEAR ENDED DECEMBER 31, 2017

	Retained Earnings/ (Deficits)	Government Equity	Total
BALANCE AT JANUARY 1, 2016	1,170,477,226	22,622,395	1,193,099,621
ADJUSTMENTS:			
Add/(Deduct):			
Other Adjustments	(643,162,359)		(643,162,359)
RESTATED BALANCE AT JANUARY 1, 2016	**527,314,867**	**22,622,395**	**549,937,262**
Changes in Equity for 2016			
Add/(Deduct):			
Member's Contribution	(82,106,384)		(82,106,384)
Comprehensive Income for the year	136,380,608		136,380,608
Other Adjustments	(56,757,939)		(56,757,939)
BALANCE AT DECEMBER 31, 2016	**524,831,152**	**22,622,395**	**547,453,547**
Changes in Equity for 2017			
Add/(Deduct):			
Member's Contribution	(89,858,289)		(89,858,289)
Compresenhive Income for the year	179,716,578		179,716,578
Other Adjustments	(21,206,149)		(21,206,149)
BALANCE AT DECEMBER 31, 2017	**593,483,292**	**22,622,395**	**616,105,687**

* The notes on page 9 to 28 form part of these financial statements.

DUTY FREE PHILIPPINES CORPORATION
CONDENSED STATEMENT OF CASH FLOW
(CORPORATE FUND)
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows		
Proceeds from Sale of Goods and Services	7,122,618,347	7,100,273,894
Collection of Income/Revenue	15,389,518	1,417,747
Collection of Receivables	3,660,947,088	3,338,821,289
Trust Receipts	1,064,788	20,290,113
Other Receipts	64,646,869	32,714,856
Adjustments	11,147,919	15,068,531
Total Cash Inflows	**10,875,814,528**	**10,508,586,430**
Cash Outflows		
Payment of Expenses	1,647,326,098	1,680,597,038
Purchase of Inventories	7,334,744,733	7,406,499,438
Prepayments	557,808	9,372,943
Refunds of Deposits	5,543,190	30,068,734
Payment of Accounts Payable	1,140,849,749	865,004,227
Remittance of Personnel Benefit Contributions and Mandatory Deductions	361,524,585	475,255,494
Adjustments	14,676,022	11,538,495
Total Cash Outflows	**10,505,222,185**	**10,478,336,370**
Net Cash Provided by (Used in) Operating Activities	**370,592,343**	**30,250,060**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Inflows		
Receipts of Interest Earned	7,522,998	9,614,076
Receipts of Cash Dividends	139,633	-
Proceeds from Matured Investments/Redemption of Long-term Investments/Return	1,020,199	125,901
Proceeds from Sale of Other Assets	81,000	-
Total Cash Inflows	**8,763,830**	**9,739,977**
Cash Outflows		
Purchase/Construction of Investment Property	132,120,906	111,573,638
Purchase of Intangible Assets	3,792,168	100,400
Total Cash Outflows	**135,913,074**	**111,674,038**
Net Cash Provided by (Used in) Investing Activities	**(127,149,245)**	**(101,934,061)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Inflows	**-**	**-**
Cash Outflows		
Remittance to the Department of Tourism	74,738,316	170,678,363
Total Cash Outflows	**74,738,316**	**170,678,363**
Net Cash provided by (Used in) Financing Activities	**(74,738,316)**	**(170,678,363)**
Increase/(Decrease) in Cash and Cash Equivalents	**168,704,782**	**(242,362,364)**
Effects of Exchange Rate Changes on Cash and Cash Equivale	**(9,706,885)**	**27,268,616**
Cash and Cash Equivalents, January 1	**1,679,780,005**	**1,894,873,753**
Cash and Cash Equivalents, December 31	**1,838,777,902**	**1,679,780,005**

* The notes on page 9 to 28 form part of these financial statements.

Duty Free Philippines Corporation
Note to Financial Statements
For the year ended December 31, 2017

1. General Information

Duty Free Philippines (DFP) was created by virtue of Executive Order No. 46 dated September 4, 1986 which granted the Ministry of Tourism, through the Philippine Tourism Authority (PTA), the franchise 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 accrue to the national government through the Ministry of Tourism, presently Department of Tourism (DOT) pursuant to Section 3 of Executive Order No. 46. The franchise for the operation of the tax and duty free shops was formerly held by Tourist Duty Free Shops, Inc. (TDFS) for a period of 25 years, pursuant to Presidential Decree No. 1193 and Letter of Instruction No. 595 dated September 6, 1977. Both decrees were later repealed by Executive Order No. 24 issued in June 27, 1986.

Pursuant to EO 46, DOT issued the implementing rules and regulations 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.

In 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."

In May 12, 2009, 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 in July 13, 2009. The Implementing Rules and Regulation (IRR) was subsequently issued by the DOT Secretary and became effective upon its publication in November 12, 2009.

As provided under Section 89 of the aforesaid law, Duty Free Philippines was reorganized as Duty Free Philippines Corporation (DFPC) attached to the Department of Tourism (DOT). Accordingly, DFPC became a corporate body mandated to operate the tax and duty free merchandising system in the Philippines as established by the Department under EO 46.

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

(a) DOT Secretary, as Chairperson;
(b) DFPC Chief Operating Officer, as Vice Chairperson;

(c) DOF Secretary;
(d) DTI Secretary; and
(e) Three (3) representative directors, to be appointed by the President upon the recommendation of the Tourism Congress from a list of at least six (6) nominees coming from its members.

Under Sec. 93 of RA No. 9593, the DFPC shall have an authorized capitalization of five hundred million pesos (P500,000,000) which shall be fully subscribed by the National Government.

Request for National Government (NG) equity contribution of P250,000,000 was made in the 2015 Corporate Operating Budget as additional capitalization for store renovation and inventory purchases. However, as per letter of then Secretary Florencio B. Abad dated June 27, 2014 the National Government could not yet provide additional equity infusion of P250,000,000 in FY 2015 because of competing priority programs and projects.

Furthermore as required in Section 93, a minimum of 50% of the annual net profits of the DFPC is remitted automatically to the Office of the Secretary to fund tourism programs and projects, in lieu of its statutory remittance to the national government under Republic Act No. 7656, seventy percent (70%) of which is 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, Sec. 95 of RA No. 9593 provided that DFPC shall be entitled to exemption from the following:

(a) Duties and taxes, including excise and VAT, relative to the importation of merchandise for sale;
(b) Local taxes and fees imposed by the LGUs; and
(c) Corporate Income Taxation.

Likewise, under Sec. 105 thereof, the employees and management of the DFPC are exempt from the coverage of the Salary Standardization Law.

By virtue of the same enactment, DFPC was subrogated to all rights and assumed all liabilities of the DFP in accordance with pertinent laws, rules and regulations (Section 110).

DFPC submitted its Reorganization Plan to Governance Commission for GOCCs (GCG) in March 23, 2016 for approval.

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

1) Fiestamall, Parañaque City
2) NAIA Terminal I – Arrival and Departure, Pasay City
3) NAIA Terminal II – Arrival and Departure, Pasay City
4) NAIA Terminal III – Arrival and Departure, Pasay City
5) Mactan International Airport – Arrival and Departure, Lapu-lapu City, Cebu
6) Cebu Waterfront Hotel, Lahug, Cebu City
7) Davao International Airport – Arrival, Davao City

8) Davao International Airport – Visitors Center, Davao City
9) Resorts World Manila – Pasay, City
10) Kalibo International Airport – Arrival and Departure, Kalibo, Aklan
11) Clark International Airport - Pre-Departure and Arrival Area, Clark Freeport Zone, Pampanga
12) Iloilo – Cabatuan, Iloilo
13) New Bacolod (Silay) Airport

2. Statement of Compliance and Basis of Preparation of Financial Statements

The financial statements have been prepared and translated effective December 31, 2017 in accordance with the Philippine Financial Reporting Standard (PFRS) prescribed by the Commission on Audit per COA Resolution No. 2014-003 dated January 24, 2014. The financial statements reflect historical cost, unless stated otherwise. The Statement of Cash Flows is prepared using the direct method.

3. Summary of Significant Accounting Policies

The financial statements are prepared on an accrual basis in accordance with the PFRS.

3.1 Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand as well as bank deposits in dollar, euro and peso savings account including dollar placed in time deposit, which are available for use in current operation.

3.2 Allowances for Impairment – Accounts Receivable

Receivables are valued at their face amounts minus, whenever appropriate, allowance for impairment. 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 evaluation and analysis of collection.

Trade, non-trade and other trade receivables are classified as current (one year and below) and non-current (more than one year).

Current receivables are aged accordingly to establish the amount of impairment loss derive from percentages proportionate with the age of receivables:

Age of Accounts	*Percentage*
1 - 60 days	1%
61 - 180 days	2%
181 - 365 days	3%

Provision of allowance for non-current receivables is calculated on the following rates:

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, Duty Free Philippines Corporation adopted "outright deduction" policy, offsetting of receivables with payables to concessionaires and vendors. This covers reimbursements of expenses from concessionaires crediting appropriate expense account such as rental, freight, storage, brokerage, demurrage, warehousing bond/ insurance, truck usage, forklift, blanket waiver, power consumption, communication, security, salary subsidy, 1% commission on credit card, travel agency & 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 debited for the support on price reduction, rebates and defective electronics.

3.3 Inventories

Inventory Held for Sale (Merchandise Inventories)

Under Merchandise Management System (MMS), Duty Free Philippines Corporation uses perpetual inventory tracking system that updates inventory after each transaction and quantities updated continuously based on transfers, sales, cycle and year-end physical count.

Inventory per code per quantity and per location is maintained in MMS that tracks all its movements such as ordering, shipment, costing, pricing, etc.; e by Epicor financial system maintain inventory total cost by product category.

Merchandise inventory is valued at landed average cost using moving average method calculated under MMS. Purchase Order serves as the initial cost in the system; for CIF shipping term, freight is allocated by applying the appropriate factors: forwarders, country of origin, supplier, currency, volume and mode of shipment; insurance rate is estimated at 0.25% of invoice cost with 10% mark-up.

Purchase of merchandise for sale is booked at landed cost (CIF) reconciled with PO, Commercial Invoice and MMS with variance taken-up as adjustment to cost of sales. In case of significant change in cost, MMS is updated from the latest PO plus freight and insurance.

Inventory Held for Consumption (Supplies Inventories)

Duty Free Philippines Corporation adopted the weighted average cost method calculated under Inventory Module based on actual cost from the last receipts records.

3.4 Provision for inventory spoilage, spillage and/or evaporation

This account covers allowance for obsolescence on good merchandise (non-consumables) with provision every year-end according to aging per Merchandise Management System (MMS):

Age of Inventory	*Percentage*
2 yrs. and below	no allowance for obsolescence
More than 2yrs. to 4yrs.	10%
More than 4 yrs. to 6 yrs.	20%
More than 6 yrs. and above	80%

Additional provision is made for the monthly inventory damage based on MMS-generated report supported by Incident Report with reclassification from Allowance for Obsolescence to Allowance for Damage using the following rates:

Consumables	100%
Non-consumables	80%

3.5 Property, Plant and Equipment

Recognition

An item is recognized as property, plant, and equipment (PPE) if it meets the characteristics and recognition criteria as a PPE.

The characteristics of PPE are as follows:

- tangible items;
- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost or fair value of the item can be measured reliably.

Measurement at Recognition

An item recognized as property, plant, and equipment is measured at cost inclusive of VAT.

Cost includes the following:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- expenditure that is directly attributable to the acquisition of the items; and
- initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Depreciation

Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

Depreciation Method

The straight-line method, monthly depreciation is adopted.

Estimated Useful Life

The Duty Free Philippines Corporation (DFPC) uses the Schedule on the Estimated Useful Life of PPE classified by the COA. The Agency uses a residual value equivalent to at least ten percent (10%) of the cost of the PPE.

The acquired fixed assets and leased assets improvements are recorded in the Accounts Payable Module as Fixed Asset Clearing account automatically reversed by the system to its appropriate asset account every month-end according to its acquisition date. Depreciation begins at place-in service date recorded on the following month from acquisition date. Pending reversal, the Clearing account is presented in the financial statement as part of the Furniture, Fixtures and Equipment.

Activities under Asset Management Module have default accounts that create journal entries for the creation and activation of newly acquired asset, depreciation and disposition, adjustment caused by addition, damage and improvements.

Fabricated furniture and fixtures and on-going improvements are taken-up as Construction in Progress-Furniture & Fixtures and CIP-Leased Assets Improvements respectively. These accounts are reversed to asset upon issuance of Certificate of Completion by Facilities and Management Department.

3.6 Intangible Assets

Recognition and Measurement

Intangible assets are recognized when the items are identifiable non-monetary assets without physical substance; it is probable that the expected future economic benefits or service potential that are attributable to the assets will flow to the entity; and the cost or fair value of the assets can be measured reliably.

Intangible assets acquired separately are initially recognized at cost.

Expenditure on an intangible item was recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria of an intangible asset.

Subsequent Measurement

The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with a finite life are amortized over its useful life:

The straight line method is adopted in the amortization of the expected pattern of consumption of the expected future economic benefits or service potential.

The amortization period and the amortization method, for an intangible asset with a finite useful life, were reviewed at the end of each reporting period.

3.7 Changes in accounting policies and estimates

The DFPC recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy were applied prospectively if retrospective application is impractical.

The DFPC recognizes the effects of changes in accounting estimates prospectively by including in surplus or deficit.

The Duty Free Philippines Corporation corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred

3.8 Income and Expenses

DFPC adopts the accrual method of accounting for income and expenses. Expenses subsidized/reimbursed by the suppliers and concessionaires are taken-up as deduction from the corresponding expense accounts.

3.9 Foreign Currency Transactions

Foreign currency transactions involving importation of merchandise, sales, trade receivables and remittances to concessionaires are booked in dollars, translated into peso in the financial system according to monthly pre-determined book rate.

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

Conversion difference between POS and bank arising from the translation of third currency (except peso) to peso of cash sales is recognized as gain or loss on foreign exchange. On the other hand, cash sales in peso converted to dollar by POS are taken-up as sales adjustment to record actual sales in peso.

Balance of cash in bank, receivables, payables and inventory accounts in dollars are translated monthly to Philippine Dealing System (PDS) closing rate pegged at P49.93 as of December 31, 2017.

3.10 Sales Revenue

This includes income derived from sale of merchandise based on approved margin for Direct Inventory and Supplier-Owned Inventory- consignment (SOI) percentage consideration for concession merchandise under Supply and Delivery Agreement (SDA).

3.11 Sale of Goods

Revenue from the sale of goods is recognized upon receipt of payment from customers registered in the POS machines.

3.12 Interest income

Interest income is used to recognize interest earned from time deposits and bank deposits.

3.13 Dividends

Dividends or similar distributions were recognized when the Duty Free Philippines Corporation's right to receive payments is established.

3.14 Rent / Lease Income

Rent/Lease income arising from operating sub-leases is computed according to contract and included in revenue.

3.15 Budget information

The annual budget is prepared on an accrual basis and is published in the government website.

3.16 Employee benefits

The employees of the DFPC are members of the Government Service Insurance System (GSIS) which provides life and retirement insurance coverage.

The Agency recognizes the undiscounted amount of short term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

The Agency recognizes expenses for accumulating compensated absences when these were paid (commuted or paid as terminal leave benefits). Unused entitlements that have accumulated at the reporting date were recognized as accrued expense. Non-accumulating compensated absences, like special leave privileges, were not recognized.

4. Changes in Accounting Policies

On December 31, 2017, DFPC adopted completely the Philippine Financial Reporting Standards (PFRS). The new standard includes the requirement for the adoption of the Revised Chart of Accounts to set out the recognition, measurement, presentation and disclosure requirements for financial reporting in the Philippine Government.

5. Prior Period Adjustments

The DFPC has determined that certain accounts in CY 2016 were reclassified and restated to reflect the impact of the adjustments to prior years' income and expenses' related accounts in accordance with the PFRS.

Assets, Liabilities and Stockholder's Equity	**Previously Reported in 2016**	**Adjustments Recorded in 2016**	**Restated Balance**
Receivables	234,134,159	44,223,920	278,358,079
Financial Liabilities	1,670,860,560	72,056,080	1,742,916,640
Total Adjustments on Assets & liabilities		**(27,832,160)**	

Retained Earnings		**2016**
Balance, beginning as previously reported		527,314,867
Remittances to DOT		(78,272,466)
Offsetting of Over Remittance for Year 2011 to 2014		(4,804,072)
Application of over remittance to DOT in Prior Years		(42,000,000)
Adjustment made on Due to DOT for Year 2015 & 2016		(1,328,114)
Adjustment on Property, Plant & Equipment per COA Circular No. 2016-006		(13,429,825)
Over remittance for Year 2016		970,154
Sub-total		388,450,544
Net Income for Year 2016 (as previously reported)	**164,212,768**	
Direct Cost-Cost of Sales	(1,549,521)	
Personnel Services	(101,186)	
Maintenance & Other Operating Expenses	27,324,049	
Non-cash Expenses (Depreciation)	(27,562)	
Business Income - Rent/Lease Income	1,136,800	
Other Non-Operating Income - Miscellaneous Income	1,049,580	
Adjustment to Comprehensive Income	**27,832,160**	136,380,608
Retained Earnings, End (As restated)		**524,831,152**

RETAINED EARNINGS	2017	2016
Balance at Beginning of Year	**524,831,152**	
Adjustment made on Due to DOT for Year 2015 & 2016	23,793,851	
Mandatory contributions to DOT	(89,858,289)	
Application of over remittance to DOT in prior years	(45,000,000)	
Adjustment on Property, Plant & Equipment per COA Circular No. 2016-006		(13,429,825)
Net Income	**179,716,578**	
Balance at End of Year	**593,483,292**	
TOTAL EQUITY	**593,483,292**	

6. Cash and Cash Equivalents

Accounts	As of December 31, 2017	As of December 31, 2016
Cash on Hand	45,130,372	44,131,473
Cash in Bank-Local Currency	115,980,524	314,622,372
Cash in Bank-Foreign Currency	183,740,234	183,412,452
Cash Equivalents	1,493,926,772	1,137,613,708
Total Cash and Cash Equivalents	**1,838,777,902**	**1,679,780,005**

Dollar and euro savings and current accounts are converted to local currency using Philippine Dealing System (PDS) closing rate of P49.93:$1.00 as at balance sheet date. The equivalent actual value of Time Deposits-Foreign Currency amounted to **US$ 23,100,261.**

Cash Collecting Officer account represents undeposited cash sales as of December 31, 2017 deposited in January 2018.

7. Investments

Reconciliation of the Other Investments

OTHER INVESTMENTS
As of December 31, 2017

Particulars	Financial Assets Held to Maturity	Financial Assets - Others	Investments in GOCCs	Total
Beginning Balance as of January 1,2017	1,020,199			1,020,199
Less: Investments sold/collected	1,020,199			1,020,199
Balance as of December 31, 2017	-			-

8. Receivables

8.1 Loans and Receivables

Particulars	2017 Current	Non-Current	Total
Accounts Receivable	301,146,997	299,530,710	600,677,707
Allowance for Impairment-Accounts Receivable	(6,194,006)	(36,884,542)	(43,078,548)
Net Value- Accounts Receivable	294,952,991	262,646,168	557,599,159
Interests Receivable	4,497,481	-	4,497,481
Allowance for Impairment-Interests Receivable	-	-	-
Net Value-Interests Receivable	4,497,481	-	4,497,481
Other Receivables	1,719,479	-	1,719,479
TOTALS	**301,169,951**	**262,646,168**	**563,816,119**

Accounts Receivable - current and non-current consist of various claims, current if it is expected to be collected within twelve (12) months following the balance sheet date and non-current if not expected to be collected within one year. This account includes trade, trade-others and non-trade receivables.

Accounts Receivable-Trade represents mainly the uncollected sales proceeds that are paid thru banks due from credit card companies. This also includes sale of merchandise on account to diplomatic/foreign embassies and other international organizations. Trade receivables are non-interest bearing and are generally collected within 15 - 45 days.

Accounts Receivable-Trade-Others are claims from suppliers and/or insurance companies due to short shipment, missing/unaccounted and/or damaged/defective merchandise.

Accounts Receivable-Non-Trade comprises advertising and office space rentals, amendment charges, product and supplier funded cash incentives, rebates and commissions due from prompt payments to suppliers and service providers. 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 paid in advance by DFPC.

Interest receivables of P 4,497,481 were derived from short-term investments in euro, dollar and peso time deposits to mature in 2018.

8.2 Aging/Analysis of Receivables as of December 21, 2017

Particulars	Total	Not Past Due	Past Due < 30 days	30-60 days	> 60 days
Accounts Receivable	557,599,159	-	264,668,109	7,872,357	285,058,693
Interests Receivable	4,497,481	-	4,497,481	-	
Other Receivables	1,719,479	-	1,719,479	-	
Total	**563,816,119**	-	**270,885,069**	**7,872,357**	**285,058,693**

Other Receivables consist of Due from Officers and Employees account which is used to record excess cash advance for travel and special projects not yet returned, cashier's shortages, inventory losses/shortages, property accountability, communication charges and loans. This is normally collected / liquidated within the same year.

8.3 Inter-Agency Receivables

Particulars	2017		
	Current	Non-Current	Total
Due from National Government Agencies	81,546,341		81,546,341
Due from Government-Owned or Controlled Corporations	732,076		732,076
TOTALS	**82,278,417**		**82,278,417**

Due from National Government Agencies represents receivable from DOT for the over remittances in previous years amounting to P81,546,341 and P262,646,168, classified as current and non-current (Accounts Receivable-Non-Current account) respectively, in compliance with Year 2011 Comments and Observations of COA Audit Report on Accuracy and Completeness of Retained Earnings and Contributions Due to DOT.

Over remittances of P344,192,509 shall be applied to future remittances to DOT subject to DFPC Board declaration.

Due from Government-Owned or Controlled Corporations refers to SSS maternity benefit and BIR tax refund of DFPC employees paid in advance by the company.

9. Inventories

Particulars	2017			
	Inventories carried at lower of cost and net realizable value	Inventories carried at fair value less cost to sell	Inventory write-down recognized during the year	Reversal of Inventory write-down recognized during the year
Inventory Held for Sale				
Carrying Amount, January 1, 2017	166,262,864	-	-	-
Additions/Acquisitions during the year	228,853,105	-	-	-
Expensed during the year except write-down	(230,986,08)	-	-	-
Allowance for Impairment	(2,592,424)	-	-	-
Write-down during the year	-	-	(18,912,372)	-
Reversal of Write-down during the year	-	-	-	2,841,097
Carrying Amount, December 31, 2017	**161,537,458**	-	**(18,912,372)**	**2,841,097**
Inventory Held for Consumption				
Carrying Amount, January 1, 2017	4,648,851	-	-	-
Additions/Acquisitions during the year	44,446,330	-	-	-
Expensed during the year except write-				

down	(46,168,136)	-	-	-
Carrying Amount, December 31, 2017	**2,927,045**	**-**	**-**	**-**
Semi-Expendable Machinery and Equipment				
Carrying Amount, January 1, 2017	-	-	-	-
Additions/Acquisitions during the year	2,853,985	-	-	-
Expensed during the year except write-down	(2,225,718)	-	-	-
Carrying Amount, December 31, 2017	**628,267**	**-**	**-**	**-**
TOTAL CARRYING AMOUNT, DECEMBER 31, 2017	**165,092,770**	**-**	**(18,912,372)**	**2,841,097**

Merchandise inventory is valued based on year-end physical count using landed average cost per Merchandise Management System (MMS). Allowance for impairment is provided to Electronics, gadgets & accessories according to age of stocks per MMS.

Monthly supplies inventory balance per Inventory Module is reconciled with the general ledger per account per department.

10. Property, Plant and Equipment

	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Books	Leased Assets Improvements	Construction in Progress	Total
Carrying Amount, January 1, 2017	**60,522,736**	**1,457,854**	**10,701,690**	**17,781,758**	**128,500,316**	**218,964,354**
Additions/Acquisitions	72,319,096	-	712,785	2,797,509	163,036,142	238,865,532
Total	**132,841,832**	**1,457,854**	**11,414,475**	**20,579,267**	**291,536,458**	**457,829,886**
Disposals	-	-	-	-	-	-
Depreciation (As per Statement of Financial Performance)	(13,169,782)	(294,997)	(1,084,561)	(5,610,145)	-	(20,159,485)
Impairment Loss	-	-	-	-	-	-
Carrying Amount, December 31, 2017	**119,672,050**	**1,162,857**	**10,329,914**	**14,969,122**	**291,536,458**	**437,670,401**

	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Books	Leased Assets Improvements	Construction in Progress	Total
Gross Cost	288,708,644	9,861,784	19,936,549	94,669,100	291,536,458	704,712,535
Less : Accumulated Depreciation	169,036,594	8,698,927	9,606,635	79,699,978	-	267,042,134
Allowance for Impairment	-	-	-	-	-	-
Carrying Amount, December 31, 2017	**119,672,050**	**1,162,857**	**10,329,914**	**14,969,122**	**291,536,458**	**437,670,401**

The Leased Assets Improvement, Building account consists of the costs of additions and renovations of existing Duty Free stores, warehouses and offices located at Fiestamall, NAIA, Resorts World Manila, Kalibo, Cebu, Clark, Davao and Iloilo.

Leased Assets Improvement, Building are amortized over the initial cost term of the related lease.

Furniture, Fixtures, Books and Equipments are carried at cost and comprise of its purchase price including any direct attributable costs of bringing the asset to its working condition.

11. Intangible Assets

Particulars	2017 Computer Software
Carrying Amount, January 1, 2017	**10,603,145**
Additions/Acquisitions/Adjustment	3,792,168
Total	**14,395,313**
Disposals	-
Depreciation	933,564
Impairment Loss	-
Carrying Amount, December 31, 2017	**13,461,749**
Gross Cost	103,061,627
Less : Accumulated Amortization(including accumulated impairment loss)	89,599,878
Carrying Amount, December 31, 2017	**13,461,749**

Intangible asset consist of computer software-this account is used to recognize the purchase cost or capitalized development cost of computer software programs for use in government operation. Development costs include cost of coding, testing and cost to produce product masters.

12. Other Assets

Current and Non-Current Other Assets

Particulars	2017		
	Current	Non-Current	Total
Advances	-	-	-
Prepayments	25,499,950	-	25,499,950
Deposits (Rentals, Public Utilities, Others)		273,776,523	273,776,523
Other Assets (Merchandise Inventory, Damage)		5,110,097	5,110,097
Accumulated Impairment-Losses Other Assets		(4,138,995)	(4,138,995)
Net Value - Other Assets		971,102	971,102
TOTALS	**25,499,950**	**274,747,625**	**300,247,575**

Prepayments account is used to record authorized payment made in advance classified as follows:

Prepaid Rent account represents advance rentals on store outlets to be applied on the last payment or refundable upon termination of contract depending on the agreement.

Prepaid Insurance account consists of premiums for fidelity bonds of accountable personnel of petty cash, working fund, cash advance and Triple “D” policy for officers, fire insurance on furniture and fixtures, leasehold improvements, electronic equipment and merchandise inventory.

Input Tax account represents the 12% VAT passed on to DFPC from non-trade payments. This is being applied against the output tax derived from income on sublease of office space and ad space with the remaining balance of P582,873 as of December 31, 2017.

Other Prepayments account represents other prepayments not falling under any of the above prepaid expenses such as internet connection, system maintenance, 10% contract price of company uniforms and the like.

Guaranty Deposits - Rental are concessionaires’ rental deposits on leased spaces.

Merchandise Inventory, Damage refers to damage/defective stocks stored at warehouses and Value Shop. Damage is recorded monthly at landed average cost less allowance for damage supported by Shipping Manifest and Incident Report. This account is adjusted per Epicor and MMS through sales, return to vendor for replacement/payment, donation and condemnation/destruction.

13. Financial Liabilities

Particulars	2017	2016
	Current	**Current**
Payables		
Accounts Payable	1,856,927,571	1,742,601,735
Due to Officers and Employees	454,001	314,905
Total Payables	**1,857,381,572**	**1,742,916,640**

Accounts Payable consists of trade and non-trade payables.

Trade Payables account represents amount due to concessionaires and consignors for sales remittance, foreign and local suppliers for the purchase of merchandise payable thru check, telegraphic transfer or thru Open Account/ Draft Acceptance (OA/DA). It also includes importation charges such as freight and insurance, brokerage and warehousing bond.

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

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

14. Inter-Agency Payables

Particulars	2017 Current	2016 Current
Due to BIR	17,331,735	14,495,459
Due to GSIS	1,759,446	1,546,278
Due to Pag-IBIG	916,893	919,009
Due to PhilHealth	200,525	235,087
Due to NGAs	89,858,289	82,106,384
Due to SSS	94,973	445,260
Total Inter-Agency Payables	**110,161,861**	**99,747,477**

Due to BIR account consists of tax withheld from suppliers representing expanded and Value Added Tax (VAT) for December 2017 transactions to be remitted in January 2018.

Due to GSIS, Pag-Ibig, PhilHealth and SSS accounts are used to recognize the withholding of employees' premium payments and other payables for remittance to GSIS, Pag-Ibig, PhilHealth and SSS in January 2018.

Due to NGAs - DOT represents mandatory contributions of DFPC to DOT in accordance with the provisions of RA No. 9593 with a minimum amount equivalent to fifty percent (50%) of the annual net profits of the DFPC. Under Section 107 of Rule VII, Chapter III of the Implementing Rules and Regulations of RA No. 9593, unless the DFPC Board provides otherwise, DFPC shall retain a minimum of twenty-five (25%) 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:

Balance Beginning as of January 1, 2017	82,106,384
Remittances for the year 2017	(78,272,466)
Offsetting of over remittance from 2011 to 2014	(4,804,072)
Balance	(970,153)
Set-up of receivables for the over remittance in 2017-JEV00576440	970,153
50% share in DFPC's Net Income for 2017 (Unaudited to be unadjusted in 2018 upon release of COA audit report)	89,858,289
Balance as of December 31, 2017	89,858,289

15. Trust Liabilities

Particulars	2017 Current	2016 Current
Guaranty/Security Deposits Payable	99,480,233	97,955,605
Customers' Deposits Payable	-	-
Total Trust Liabilities	**99,480,233**	**97,955,605**

Guaranty Deposit Payable represents maximum of three (3) months rental for store and warehouse spaces posted by DFPC's various concessionaires and updated upon increase of rental rate or returned/refunded to concessionaire upon termination or expiration of Memorandum of Agreement.

16. Deferred Credits/Unearned Income

Particulars	2017 Current	2017 Non-Current	2016 Current	2016 Non-Current
Other Deferred Credits	139,396	-	264,847	-
Unearned Revenue-Investment Property	-	-	-	-
Other Unearned Revenue/Income	-	9,731,464	-	8,783,058
Total Deferred Credits/Unearned Income	**139,396**	**9,731,464**	**264,847**	**8,783,058**

Other Deferred Credits refers to output tax which represents 12 percent VAT on income other than sale of merchandise that are subject to tax

17. Other Payables

The Duty Free Philippines Corporation has payables to various creditors/suppliers not classified as financial liabilities (current and non-current):

Particulars	2017 Current	2017 Non-Current	2016 Current	2016 Non-Current
Liability for Letters of Credit	15,727,422	-	9,097,072	-
Other Payables	668,831,700	-	365,414,521	-
Accrued Expense - Trade Payable	460,767,555	-	329,794,877	-
Commission Payable	1,225,612	-	857,054	-
Unclaimed Salaries	44,006	-	3,760	-
Retention Payable	7,215,730	-	9,221,686	-
Other Payable - Trade	197,931,778	-	24,702,161	-
Adjustment - PPE	1,647,019	-	833,005	-
Others	-	-	1,978.19	-
Undistributed Collections	-	7,714,323	-	2,159,979
Total Other Payables	**684,559,122**	**7,714,323**	**374,511,593**	**2,159,979**

Accrued expenses are expenses incurred in CY 2017 but not paid as of year-end.

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

Retention Payable represents 10% retention on contract price of various construction on leasehold improvements.

Other Payable-Trade represents payable to various entities with authorized deductions from employees' salaries such as cooperative loans, union dues, life insurance, etc. This account is also used to record payable for the construction in progress of leasehold improvements with installment payment term based on Contract.

18. Government Equity

This account consists of:

Particulars	2017	2016
Equity		
PTA Equity	8,235,065	8,235,065
Donated Capital	14,387,330	14,387,330
Sub-total	22,622,395	22,622,395
Retained Earnings		
Balance, beginning of year	524,831,152	527,314,867
Adjustment made on Due to DOT	23,793,851	(1,328,114)
Application of over remittance to DOT in prior years	(45,000,000)	(42,000,000)
Mandatory Contributions to DOT	(89,858,289)	(82,106,384)
Adjustment made on Property, Plant & Equipment per COA Circular No. 2016-006		(13,429,825)
Net Income	179,716,578	136,380,608
Balance, end of year	593,483,292	524,831,152
TOTAL EQUITY	**616,105,687**	**547,453,547**

Government Equity consists of the balance of P8,235,065 out of the P50 million capital initially given by PTA to DFPC for its operations and P14,387,330 appraised value of the pallet racking system composed of racks and shelves acquired through an absolute deed of sale as an implementation of the provisions of Art. III of the lease-purchase agreement which provides that DFPC after two years lease period, has an exclusive option to purchase the equipment for the total cost or consideration less whatever rental DFPC had paid.

Reconciled with DOT records, the amount of over remittances of P697,114,070 was recognized as Due from DOT in DFPC books of accounts for Year 2011. The over remittances shall be applied to future remittances effective 2011 based on representation with DOT officials and approval by DFPC Board of Directors.

As provided for in RA No. 9593, DFPC remits to DOT fifty percent (50%) of its net income of the calendar year, beginning on January 1 and ending on December 31.

19. Service and Business Income

Particulars	2017	2016
Service Income		
Fees and Commissions Income	49,765	49,296
Business Income		
Rent/Lease Income	9,814,664	13,439,762
Sales Revenue	11,045,561,965	10,602,116,144
Less: Sales Discounts	68,197,875	41,388,784
Net Sales	10,977,364,090	10,560,727,360
Dividend Income	139,633	-
Interest Income	12,020,478	12,119,039
Total Service and Business Income	**10,999,388,630**	**10,586,335,457**

Net Sales is composed of DFPC direct items including consignment and concession sales as shown below:

Particulars	2017	2016
Direct		
Gross Sales	589,522,686	663,534,827
Less: Sales Returns and Allowances	5,637,134	5,723,975
Sales Revenue	583,885,552	657,810,852
Less: Sales Discounts	1,436,106	1,536,493
Net Sales - Direct	**582,449,446**	**656,274,359**
Concession		
Gross Sales	10,552,141,863	10,023,393,576
Less: Sales Returns and Allowances	90,465,450	79,088,284
Sales Revenue	10,461,676,413	9,944,305,292
Less: Sales Discounts	66,761,769	39,852,291
Net Sales - Concession	**10,394,914,644**	**9,904,453,001**
Total Net Sales	**10,977,364,090**	**10,560,727,360**

20. Personnel Services

20.1 Salaries and Wages

Particulars	2017	2016
Salaries and Wages-Regular	343,739,807	199,311,842
Salaries and Wages-Casual/Contractual	-	6,338,247
Total Salaries and Wages	**343,739,807**	**205,650,089**

20.2 Other Compensation

Particulars	2017	2016
Personal Economic Relief Allowance (PERA)	23,248,545	21,644,104
Representation Allowance (RA)	2,771,000	2,988,409
Transportation Allowance (TA)	9,470,585	8,203,175
Clothing/Uniform Allowance	7,492,000	7,552,638
Subsistence Allowance	-	-
Laundry Allowance	-	-
Quarters Allowance	-	-
Productivity Incentive Allowance	32,471,957	34,531,592
Overseas Allowance	-	-
Honoraria	576,775	397,853
Hazard Pay	-	-
Longevity Pay	-	-
Overtime and Night Pay	26,047,934	33,634,069
Year End Bonus	39,284,331	40,674,068
Cash Gift	9,101,500	-
Other Bonuses and Allowances	68,411,674	58,033,092
Total Other Compensation	**218,876,301**	**207,659,000**

20.3 Employees Future Benefits

The Duty Free Philippines Corporation and its employees contribute to the Government Service Insurance System in accordance with the GSIS Act of 1997 (RA 8291). The GSIS administers the plan, including payment of pension benefits to employees to whom the act applies. Life insurance and social security protection including retirement, disability, survivorship, separation and unemployment benefits and such other benefits and protection as may be extended to the employee by the GSIS, subject to the limitations provided by law. The contribution to the defined contribution plan for 2017 amounted to:

Employee Share	P	18,440,805
Employer Share		24,587,640
EC		1,086,702

20.4 Personnel Benefit Contributions

Particulars	2017	2016
Retirement and Life Insurance Premiums	25,668,691	26,264,805
Pag-ibig Contributions	1,180,400	1,178,600
PhilHealth Contributions	2,700,250	3,006,963
Employees Compensation Insurance Premiums	-	-
Provident/Welfare Fund Contributions	-	-
Total Personnel Benefit Contributions	**29,549,341**	**30,450,368**

20.5 Other Personnel Benefits

Particulars	2017	2016
Pension Benefits	-	-
Retirement Gratuity	-	953,336
Terminal Leave Benefits	-	-
Other Personnel Benefits	26,564,402	25,554,845
Total Other Personnel Benefits	**26,564,402**	**26,508,181**

21. Maintenance and Other Operating Expenses

21.1 Travelling Expenses

Particulars	2017	2016
Traveling Expenses-Local	38,231,049	38,533,625
Traveling Expenses-Foreign	4,566,970	4,436,184
Total Traveling Expenses	**42,798,019**	**42,969,809**

21.2 Training and Scholarship Expenses

Particulars	2017	2016
Training Expenses	1,463,716	2,209,714
Scholarship Grants/Expenses	-	-
Total Training and Scholarship Expenses	**1,463,716**	**2,209,714**

21.3 Supplies and Materials Expenses

Particulars	2017	2016
Office Supplies Expenses	8,436,526	10,397,840
Accountable Forms Expenses	690,488	807,865
Drugs and Medicines Expenses	254,433	221,232
Fuel, Oil and Lubricants Expenses	992,326	1,096,952
Semi-Expendable Machinery and Equipment Expenses	2,225,718	3,996,595
Semi-Expendable Furniture, Fixtures and Books Expenses	-	-
Other Supplies and Materials Expenses	27,845,757	36,721,678
Total Supplies and Materials Expenses	**40,445,248**	**53,242,162**

21.4 Utility Expenses

Particulars	2017	2016
Water Expenses	3,675,969	3,975,045
Electricity Expenses	92,982,257	92,655,827
Total Utility Expenses	**96,658,226**	**96,630,872**

21.5 Communication Expenses

Particulars	2017	2016
Postage and Courier Services	141,946	194,213
Telephone Expenses	5,032,998	4,640,475
Internet Subscription Expenses	2,982,231	3,014,516
Cable, Satellite, Telegraph and Radio Expenses	101,225	108,439
Total Communication Expenses	**8,258,400**	**7,957,643**

21.6 Awards/Rewards and Prizes

Particulars	2017	2016
Awards/Rewards Expenses	5,794	-
Prizes	-	-
Total Awards/Rewards and Prizes	**5,794**	-

21.7 Confidential, Intelligence and Extraordinary Expenses

Particulars	2017	2016
Confidential Expenses	-	-
Intelligence Expenses	-	-
Extraordinary and Miscellaneous Expenses	11,892,874	8,510,076
Total Confidential, Intelligence and Extraordinary Expenses	**11,892,874**	**8,510,076**

21.8 Professional Services

Particulars	2017	2016
Legal Services	35,150	24,800
Auditing Services	6,553,626	4,392,037
Consultancy Services	3,911,690	2,344,843
Other Professional Services	46,124,682	41,898,997
Total Professional Services	**56,625,148**	**48,660,677**

21.9 General Services

Particulars	2017	2016
Environment/Sanitary Services	1,091,706	1,022,587
Janitorial Services	38,389,874	41,286,614
Security Services	84,233,266	84,687,838
Other General Services	-	-
Total General Services	**123,714,846**	**126,997,039**

21.10 Repairs and Maintenance

Particulars	2017	2016
Repairs and Maintenance-Machinery and Equipment	6,200,058	5,724,664
Repairs and Maintenance-Transportation Equipment	749,898	885,790
Repairs and Maintenance-Furniture and Fixtures	50,000	1,500
Repairs and Maintenance-Leased Assets Improvements	809,120	1,507,550
Total Repairs and Maintenance Expenses	**7,809,076**	**8,119,504**

21.11 Taxes, Insurance Premiums and Other Fees

Particulars	2017	2016
Taxes, Duties and Licenses	7,459,131	94,313,617
Fidelity Bond Premiums	3,054,539	3,100,670
Insurance Expenses	3,639,010	4,038,300
Total Taxes, Insurance Premiums and Other Fees	**14,152,680**	**101,452,587**

21.12 Other Maintenance and Operating Expenses

Particulars	2017	2016
Rent/Lease Expenses	895,547,777	865,340,993
Advertising Expenses	44,677,749	51,806,113
Fees and Commission Expenses	34,884,224	31,553799
Other Maintenance and Operating Expenses	14,345,611	26,796,368
Transportation and Delivery Expenses	9,550,966	11,406,269
Representation Expenses	2,586,410	2,682,855
Printing and Publication Expenses	1,871,163	5,622,093
Documentary Stamps Expenses	643,494	1,635,526
Membership Dues and Contributions to Organizations	183,900	184,230
Subscription Expenses	35,240	68,681
Total Other Maintenance and Operating Expenses	**1,004,326,534**	**997,096,927**

Rent/Lease Expenses represent rent on building for bonded warehouse, office, space area for store outlets and other rentals of vehicles, forklift, chiller/ freezer per contract. It also includes concession privilege fee based on the following rates:

a) Net sales

NAIA T1, T2, T3	-	10%
Mactan Airport	-	10% to 12% (average)
Waterfront Hotel	-	3%
Resorts World Manila	-	3%
Fiestamall	-	3%
Clark	-	7.5%

b) Fixed amount for provincial stores situated at the airports under Civil Aviation Authority of the Philippines (CAAP):

Iloilo	-	P 600
Bacolod	-	1,000
Kalibo	-	600

A 17-month rental holiday for Terminal 3 was considered by Manila International Airport Authority (MIAA) based on the justification submitted. As compromised by MIAA, billing will be adjusted to effect the rental holiday. This covers P46,410,300.16 and P123,918,735.36 for 2016 and 2017, respectively, with set-up of receivable totalling P170,329,035.52.

22. Financial Expenses

Particulars	2017	2016
Bank Charges	1,091,829	741,425
Commitment Fees	-	-
Total Financial Expenses	**1,091,829**	**741,425**

23. Direct Costs

Particulars	2017	2016
Cost of Sales	**8,780,029,646**	**8,458,768,752**

Cost of Sales is composed of DFPC direct merchandise including consignment and concession cost of sales as follows:

Particulars	2017	2016
Direct	477,070,259	530,527,593
Concession	8,302,959,387	7,928,241,159
Total Cost of Sales	**8,780,029,646**	**8,458,768,752**

24. Non-Cash Expenses

24.1. Depreciation

Particulars	2017	2016
Depreciation-Machinery and Equipment	13,169,782	14,676,908
Depreciation-Transportation Equipment	294,998	610,580
Depreciation-Furniture, Fixtures and Books	1,084,561	1,061,295
Depreciation-Leased Assets Improvements	5,610,145	6,531,280
Total Depreciation	**20,159,486**	**22,880,063**

24.2. Amortization

Particulars	2017	2016
Amortization – Intangible Assets	**933,564**	**971,715**

24.3. Impairment Loss

Particulars	2017	2016
Impairment Loss-Loans and Receivables	1,787,127	420,399
Impairment Loss-Inventories	1,433,081	2,419,410
Total Impairment Loss	**3,220,208**	**2,839,809**

24.4. Losses

Particulars	2017	2016
Loss on Sale of Property, Plant and Equipment	515,567	8,358,844
Other Losses	204,329	545,273
Total Losses	**719,896**	**8,904,117**

25. Gains

Particulars	2017	2016
Gain on Foreign Exchange (FOREX)	11,090,332	7,934,741
Total Gains	11,090,332	7,934,741

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

The amount of P11,090,332 comprises of realized gain of P34,669,888 and unrealized loss of P23,579,556 . 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 P49.93 as of December 31, 2017.

26. Other Non-Operating Income

Particulars	2017	2016
Miscellaneous Income		
Proceeds from Insurance/Indemnities	-	-
Miscellaneous Income	2,272,657	1,330,939
Total Miscellaneous Income	2,272,657	1,330,939
Total Other Non-Operating Income	**2,272,657**	**1,330,939**

27. Classifications of Retained Earnings:

Retained Earnings/ (Deficit) 1 - This account is used to close the Revenue/Income and Expense Summary account.

Retained Earnings/ (Deficit) 2 - This account consists of cumulative income per year and remittances to the Department of Tourism (DOT) in accordance with RA 9593.

Retained Earnings/ (Deficit) 3 – This account is used to recognize prior period adjustments.

28. RECLASSIFICATION AND RESTATEMENT OF ACCOUNTS

Certain accounts in the 2016 financial statements were reclassified to conform to 2017 financial statements' presentation for proper disclosures, and restated to reflect the impact of the adjustments to prior years' income and expenses and related accounts in accordance with the PFRS.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit

1. Cost of merchandise totaling P0.346 million withdrawn by the Department of Tourism (DOT) from the DFPC store during CY 2017 were not recorded in the books resulting in the understatement of receivables from the DOT and overstatement of the Merchandise Inventory account.

1.1 Review of the withdrawal of merchandise recorded under the merchandise inventory account using the Gate Pass Slips (GPS) showed that goods costing US$6,938.35 equivalent to P346,446.80 (using the year-end booking guiding rate of P49.93) were authorized by DOT officials to be delivered to the offices of said DOT officials to be charged to the trust liability-DOT account. The 277 items of merchandise withdrawn under various GPS during the period from May to September 2017 were not recorded in the DFPC books as of December 31, 2017, thereby understating the receivable account and overstating the merchandise inventory.

1.2 The 277 items costing US$6,938.35 or P346,446.80, apart from the US$43,091.13 or P2,174,150.08 that were recorded in the books were all duly receipted by the Office of the DOT Secretary upon the release of the items from the DFPC warehouse based on the issued and approved GPS.

1.3 The withdrawn merchandise consisted of toiletries, kitchen wares, beddings, appliances, canned goods, branded bags, luxury brand cosmetics, chocolates and others.

1.4 ***We recommended that Management require the Accounting Department to record in the DFPC books of accounts the withdrawn items costing US$6,938.35 equivalent to P346,446.80 by debiting receivables from DOT and crediting merchandise inventory and thereafter bill the DOT for the withdrawn merchandise.***

B. Compliance Audit

2. Reimbursement made by the concessionaires for the cost of utilities, maintenance, security, and investment on leasehold improvements in the total amount of P285.221 million for CY 2017 were credited to the accounts Rent Expense-Building, Rent Expense-CPF, Electricity, Telephone, Security Services and Salaries without policies/guidelines on the proper apportionment of the reimbursements, hence, the correctness and validity of the amounts deducted from/credited to said expenses accounts could not be ascertained.

2.1 Review of the “fixed considerations” collected from the concessionaires representing their share in the cost of utilities, maintenance, security, investment on leasehold improvements disclosed that these were recorded as credits to/reductions from the expense accounts: Rent Expense-Building, Rent Expense-CPF, Electricity, Telephone, Security Services and Salaries. Upon verbal inquiry, the Manager, Accounting Department confirmed that the allocation of the shares of the concessionaires were based mainly on the area occupied by the concessionaires. There were no established guidelines delineating the proper allocation of the shares of the concessionaires taking into account such additional factors as number of personnel hired by the concessionaires and assigned to man the stores, type and number of furniture, fixtures and equipment installed within the rented area, the type and volume of merchandise stored in the DFPC which were held for sale, etc.

2.2 As of December 31, 2017, the fixed considerations automatically deducted from the shares of the concessionaires in the DFPC sales amounted to P285,221,636**.** The correctness of the allocation as to the concessionaire's share in the cost of utilities, maintenance and security as well as leasehold improvements could not be ascertained since there were no specific guidelines to serve as bases for the said allocation of the reimbursements.

2.3 Since the fixed considerations collected from the concessionaires were intended to reimburse DFPC for the former's share in the operating expenses, a basis for the allocation of said shares should be established to serve as a tool for the review of the correctness and appropriateness of the amounts so allocated to forestall any issues that could arise from what appears to be arbitrary allocation thereof.

2.4 This observation was brought to the attention of the DFPC Management per COA Audit Observation No. AOM No. 2016-002 dated February 15, 2017, however, management commented in the Action Plan and Status of Implementation of Audit Observations and Recommendations submitted to the COA, Office of the Supervising Auditor (OSA)-DFPC on August 4, 2017 (pertinent to the CY 2016 AAR), that the Board of Directors decided not to set-up the guidelines as it would diminish the flexibility of DFPC during negotiations with concessionaires.

2.5 ***We reiterate previous year's recommendations that Management establish the guidelines/policies for the proper allocation of the fixed considerations being charged to the concessionaires, as to rent, utilities, maintenance, security and/or investment on leasehold improvement that will serve as guide for a systematic and reasonable bases for the computation on the proper shares of the concessionaires.***

2.6 Management commented that this matter is being studied for presentation to the Board.

2.7 **Auditor's rejoinder**: The establishment of properly crafted guidelines and policies should serve the purpose and mandate as well as protect the interest of the DFPC. The guidelines and policies should provide management not only with a more logical and systematic allocation of concessionaires' share in the expenses but also prove to the concessionaires the lack of bias or favoritism of DFPC management for any of its concessionaires. The flexibility needed by the DFPC management during negotiations with new concessionaires could further be enhanced since the policies and guidelines will provide transparency in the governance of DFPC affairs.

3. Withdrawals of merchandise by the DFPC and its concessionaires using the Gate Pass Slip (GPS) which in CY 2017 amounted to US$0.125 million or P6.254 million and US$0.267 million or P13.360 million, respectively, were considered not compliant with the requirements of COA Circular No. 2012-003 dated October 29, 2012. DFPC averred that the withdrawn merchandise were used as corporate giveaways/gifts, although the prices of the items ranged from US$11 to US$4,150.

3.1 Sections 5, COA Circular No. 2012-003 (Guidelines for the Prevention and Disallowance of Irregular, Unnecessary, Excessive, Extravagant and Unconscionable Expenditures [IUEEU]) provides:

> "*EXCESSIVE EXPENDITURES refer to those that x x x exceed what is usual or proper as well as expenses which are unreasonably high and beyond just measure or amount x x x.*"

Also, Section 3 of the same Circular provides:

> *"The term "irregular expenditure" signifies an expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws. x x x"*

3.2 Gate Pass Slips (GPSs) are used to withdraw merchandise, both by DFPC and its concessionaires, from the DFPC stores/outlets in accordance with the Standard Procedural Instructions (SPI) No. FI9701 dated March 3, 1997 which became effective on April 1997 and approved by the DFPC Board of Directors on September 2015 per Board Resolution No. R11-9-24-2015.

3.3 In CY 2017 DFPC withdrew merchandise which were originally intended for sale totaling USD125,268.78 or P6,254,670.19 (using the year-end guiding rate of P49.93) allegedly for corporate giveaways/sponsorship (with prices ranging from $1.80 to $1,600), using the GPS. The goods withdrawn were intended for sale by the concessionaires paid by DFPC to the former which were charged to the DFPC advertising and promotion expense account.

3.4 On the other hand, withdrawals by the concessionaires of 8,559 items of various merchandise with a total cost of US$267,592.06 or P13,360,871.56 allegedly also for corporate giveaways and sponsorships constitute irregular transactions as defined under Section 3 of Circular 2012-003 dated October 29, 2012.

3.5 We noted that in CY 2017, concessionaires withdrew from the DFPC stores/outlets various merchandise (prices ranging from $1.35 to $4,150) some with significant commercial value intended for sale totaling P13,360,871.56. The withdrawn merchandise by DFPC and its concessionaires were allegedly issued to various recipients as corporate giveaways, gifts, tokens and sponsorships for such events as golf tournaments, inaugurations, company anniversaries, family day, club activities and sports fest. The withdrawn merchandise included, among others, LED televisions sets, signature bags and shoes, inverter refrigerators, coffee machines, kitchen appliances, wines and food items. Despite repeated requests, we were not furnished copy of the list of the recipients/events wherein the items were allegedly distributed.

3.6 The merchandise with total cost of P13,360,871.56 were imported by the concessionaires using the Purchase Orders (POs) of DFPC, therefore were not subjected to the imposition of duties and taxes which deprived the government of the *applicable duties and taxes.* Moreover, these were recorded in the concessionaire's books of accounts as part of their operating expenses (thus deducted from their taxable income), which practices were disadvantageous to the government.

3.7 Importation of said merchandise were for the purpose of reselling these with the DFPC stores but were nevertheless withdrawn by both the DFPC and concessionaires allegedly for corporate giveaways/corporate gifts and for product samples and advertising and promotions that were not supported with the list of recipients/events duly indicated in the GPS. While corporate gifts are acceptable industry practice for advertising products, may we emphasize that uncontrolled withdrawals of these merchandise could flood local markets with imported goods which could be counterproductive for DFPC in the long run.

3.8 We recommended and management agreed to:

a) set guidelines and limits for the withdrawal by concessionaires of merchandise for purposes of corporate gifts such as establishing a percentage based on the goods brought into/sold from the DFPC outlets;

b) impose the applicable customs duties and taxes on the merchandise withdrawn from the stores specially those with commercial value; and

c) submit list/s of company/promotional activities for the merchandise given by DFPC as corporate gifts/giveaways to deter issuance of a Notice of Disallowance.

3.9 Management submitted the following comments:

a) DFPC has been strictly complying with COA Circular No. 2012-003 and its own Interim Guidelines on the Issuance and Usage of Gate Pass Slip;

b) DFPC Interim Guidelines on the Issuance and Usage of Gate Pass Slip will be updated to include limits on the amount of merchandise with commercial value that can be withdrawn as corporate gifts and sponsorship;

c) for requests for withdrawal of merchandise by concessionaires other than for the purposes allowed in the DFPC Interim Guidelines on the Issuance and Usage of Gate Pass Slip and not allowed under COA Circular No. 2012-003, DPFC will make arrangements with the Bureau of Customs for the assessment of applicable duties and taxes;

d) DFPC will adhere to Customs Administrative Order 3-87, issued on March 28, 1987, which prescribes the rules, regulations and procedures for the establishment, operation and control of duty and tax free stores and warehouses to ensure that all merchandise imported using DFPC Purchase Orders will be used only for purposes stated in the DFPC mandate; and

e) Management submitted the list of recipients of merchandise for advertising and promotion.

3.10 **Auditor's rejoinder:** There were items allegedly given as corporate gifts/giveaways costing US$1,600 to US$4,150 which were considered as extravagant and unconscionable expenditures. Moreover, we requested for the list of recipients for the corporate gifts and corporate giveaways, the list submitted were the recipients for advertising and promotions.

4. Department of Tourism (DOT) expenditures for: a) cost of merchandise withdrawn from the DFPC Stores; b) consultancy fees; and c) expenses for shipment of DOT donations amounting to P2.174 million, P1.600 million; and P22,893, respectively, or a total of P3.797 million were deducted from DOT's share in DFPC's net profits by the debiting the amount to account Due to Other NGAs (Trust Liabilities)–DOT contrary to the pertinent provisions of Republic Act (R.A.) No. 9593 (Tourism Act of 2009).

4.1 Implementing Rules and Regulation of R.A. No. 9593 provides that the only instance/situation when the share of DOT in net profits of DFPC can be reduced, viz:

"*Section 106* - *Remittance of DOT's Share of Net Profits.*

. . . ***any remittance of Contribution Due DOT made in excess of the Actual amount due shall be credited as part of the remittance of Contributions Due DOT to be made for the succeeding yea****r."*

The law did not specify any other instance/situation authorizing for the reduction of DOT's share in DFPC's net profits.

4.2 In CY 2017, DFPC charged the following DOT expenditures in the total amount of P3,797,043.60 from the account Due to Other NGAS (TLA-DOT), the account used to record DOT's share in DFPC's net profit contrary to the pertinent provision of Republic Act (R.A.) No. 9593 (Tourism Act of 2009):

a. Merchandise intended for resale amounting to US$43,091.13 or P2,174,150.08 for the Office of the Secretary of the Department of Tourism (DOT). The assorted items were authorized to be withdrawn from the DFPC stores thru various memoranda of the DOT Secretary and the Undersecretary for Administration and Special Concerns, requesting the issuance of gate pass slips (GPS) for the release of various merchandise from the DFPC stores, broken down as follows:

Particulars	Amount
Merchandise withdrawn thru various memoranda of the DOT Secretary	P 43,885.01
Merchandise withdrawn thru various memoranda signed by the DOT Undersecretary for Administration and Special Concerns	1,371,739.96
Merchandise withdrawn by DFPC for DOT	758,525.11
Total merchandise withdrawn from DFPC stores charged to the TLA-DOT account	P 2,174,150.08

b. Consultancy fees of a DOT Consultant for CY 2011 to 2017 totaling P1.600 million.

DFPC represented by its Chief Operating Officer (COO) entered into a contract of service with a consultant for the latter to provide assistance in the assessment and promotion and/or related projects to the Department of Tourism (DOT) and DFPC. The appropriations for the said contract of service were not included in the Corporate Operating Budget of DFPC because it was provided in the contract that the Consultant's fees shall be funded from the shares of the DOT in DFPC's annual net profits.

c. Payments for the cost of shipment of goods in the amount of P22,893.55 for various DOT donations.

4.3 DFPC's authority to make deductions from the share of DOT from its net revenues is confined to the recoupment of over-remittances as specifically provided under Section 106 of the IRR of R.A. No. 9593. Hence, DOT expenditures in the total amount of P3,797,043.60 deducted from the account Due to Other NGA-DOT for CY 2017 was deemed contrary to the Tourism Act.

4.4 Likewise, it must be informed that funds of DOT representing its share of the DFPC profits recorded under a trust liability account pursuant to R.A. No. 9593 are still subject to/not exempt from the budgeting process to be approved by the legislative body upon recommendation of the Department of Budget and Management (DBM).

4.5 ***We recommended and Management agreed to bill the DOT for the subject expenditures charged to the DOT-Trust Liability Account (TLA) and record the same as receivables from the DOT under the account Due from Other NGAs-DOT. Henceforth, stop the practice of directly charging from DOT's share in DFPC's net profits for the cost of items withdrawn by DOT from the DFPC stores and other payments made by DFPC for and in behalf of the DOT pursuant to the pertinent provisions of Republic Act (R.A.) No. 9593 (Tourism Act of 2009).***

5. The over-remittances of DFPC to DOT during the years 1987 to 2009 in the total amount of P697.114 million were not yet fully recouped despite issuance of DFPC Board Resolution No. 014-25-12, leaving a balance of P344.192 million as of end of CY 2017.

5.1 In the CY 2010 Annual Audit Report (AAR) rendered for the DFPC, the Commission on Audit reported that DFPC did not recognize in the books the over-remittance to DOT of its 50% share in the annual net profits of DFPC from 1987 to 2009.

After a series of meetings in 2011 between the DOT Accountant, Director for Finance and COA Auditor, the DFPC and DOT agreed to record in their books the over-remittances in the amount of P697.114 million to be settled by way of offsetting the amount from the future remittances of DFPC of the 50 per cent share of DOT in the annual net revenues of the corporation.

5.2 In accordance with the agreement, the over-remitted amounts were recorded in the books of DFPC as Due from NGAs-DOT. The non-current portion thereof amounting to P575.114 million was reclassified to Other Assets-Non Current Receivables Non-Trade.

5.3 DFPC Board Resolution 01-4-25-12 adopted on April 25, 2012 provided for the Schedule of Remittances of DFPC to DOT and the corresponding reduction therefrom for the purpose of recoupment of the over-remitted shares. The resolution provided that the schedule of payment be based on the assumption of projected annual increase in the net income of DFPC from CYs 2011-2015, thus, by the end of 2015, the over-remittance should have been settled as follows:

Proposed Schedule of Remittances (in millions) for the period 2011-2015

Year	Projected Net Income	50% DOT share	Additional share	Total DOT SHARES	Amount Applied to Receivable	% of Net Profit	Unrecouped Balance of Over-remittance
Agreed amount to be recorded as over-remittance in books of DOT and DFPC							697
2011	597	298.5	49.3	347.8	100	17%	597
2012	551	275.5	17.8	293.3	120	22%	477
2013	606.1	303	14.5	317.6	137	23%	340
2014	667	333	6.7	340.1	160	24%	180
2015	733	367		367	180	25%	0

However, as of December 31, 2017 the over-remittance to DOT still had an un-recouped balance of P344,192,509.06 due to the non-application of recoupment amounts as required in the DFPC Board Resolution as shown below.

Year	Net Income	Net Income (Audited)	Applied to Receivable	Balance of Over-remittance to DOT
2010	493,331,489.80	488,921,819.93	-	697,114,070.27
2011	579,707,237.66	623,271,556.10	100,000,000.00	597,114,070.27
2012	544,009,760.63	545,133,624.55	-	597,114,070.27
2013	382,088,673.47	376,492,326.39	100,000,000.00	497,114,070.27
2014	271,074,479.58	270,848,853.24	67,500,000.00	429,614,070.27
2015	197,969,445.77	341,356,726.42	85,000,000.00	344,614,070.27
2016	136,380,608.43	164,212,768.03	42,000,000.00	302,614,070.27
2017 (Unaudited)	-	179,716,577.88	45,000,000.00	257,614,070.27
Add: Over remittance for years 2015 & 2016 due to restated FS				86,578,438.79
Total Un-recouped Over remittance to DOT				**344,192,509.06**

5.4 As show in the tabulated data above, the proposed recoupment of the over-remittance in the 50 per cent share of DOT from the DFPC net profits were not realized because the projected net income for the years 2011 to 2016 did not materialize. DFPC's actual net profits from CYs 2011 to 2015 declined, thus, the over-remittances totaling P344,192,509.06 remained not recovered as of December 31, 2017.

5.5 ***We recommended that Management revisit Board Resolution No. 01-4-25-12 and set a fixed recoupment annual amount to enable DFPC to fully recover the remaining balance of the over remittances to the DOT.***

5.6 Management committed to set a meeting with the Department of Tourism (DOT) to discuss the COA recommendation.

6. DFPC could have earned an additional P810.423 million from the NAIA Terminal 3 Landside Stores instead of being deprived the opportunity to earn income therefrom in view of the delay in the opening and operationalization of said store/outlet.

6.1 DFPC entered into a Lease and Concession Contract (LCC) with the Manila International Airport (MIAA) on June 9, 2014 for 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, for a period of five (5) years inclusive of the six (6) months grace period for the installation of the fitting works, to commence upon receipt by the DFPC of the Notice to Proceed (NTP) which was issued on November 14, 2014. Pursuant to the LCC, DFPC shall continue to be responsible for all its financial obligations despite non-completion of the refitting works which was not completed within the grace period granted by MIAA.

6.2 In a letter dated October 29, 2014, the MIAA informed DFPC that construction works for the Landside Levels 1 and 2 can commence on November 15, 2014 while charges for rental, CPF and GCF for these areas shall commence on May 16, 2015 or earlier should partial or full operationalization of DFPC store commences before the said date. MIAA also required DFPC, to submit the plans and designs for MIAA's approval. In a letter dated August 14, 2015, addressed to the DFPC, the MIAA General Manger reminded that the rental billing shall start May 16, 2015 whether or not construction of the leased areas had been completed.

6.3 DFPC planned 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.

6.4 The rental, concessionaire's privilege fee and other charges stipulated in the contract were as follows:

Level	Area in square meters	Rental		Concessionaire's Privilege Fee (CPF) exclusive of 12% EVAT	Garbage Collection Fee (GCF) exclusive of 12% EVAT
		per sq.m/ month	Total Monthly Fixed Rental in		
1	4,696.49 shops	P800	P 3,757,192	10% of gross sales	1% of the rental
	1,000 Fast Foods		800,000	7% of gross sales	1.5% of the rental
2	5,828.69 shops		4,662,952	10% of gross sales	1% of the rental
TOTAL			**P 9,220,144**		

6.5 The rental rate was subject to two per cent (2%) yearly escalation after three years from the start of the lease period and every five years thereafter should there be renewal of contracts.

6.6 As of end of CY 2017, however, only the food court area was operational. The opening/operations of the stores/shops in both Levels were not started due to problems encountered in the construction/refitting of the area such as insufficient chilled water supply, construction of power house facilities and the need to completely redesign the store plans.

6.7 Contributing to the delay was the decision of the former DFPC Deputy General Manager (DGM) for Administration who denied the issuance of the Purchase Requests for the procurement of the necessary equipment/materials in deference to the incoming administration to decide on the Project.

It should be emphasized that DFPC is obliged to honor its contract with MIAA. Section 10.19, Article X of the Contract provides that the provisions thereof were binding upon the parties thereto and their heirs and successors-in-interest. Since the contract had been executed and finalized, the parties thereto are bound to honor the terms and conditions stipulated therein as long as it is not disadvantageous to the government.

6.8 Fortunately, in a letter dated February 7, 2018 of the MIAA management, DFPC's request for rent holiday of 17 months was granted, the rental expenses incurred from May 16, 2015 to December 31, 2017 amounting to P252,986,123.34 was reduced to P82,657,087.82, broken down as follows:

Total payment made to MIAA for Terminal 3 Landside Store as of December 31, 2017	P 252,986,123.34
Less: Rent application per approved MIAA rent holiday	
Application for rental paid for the year 2016	46,410,300.16
Application for rental paid for CY year 2017	123,918,735.36
Rent expense incurred for Terminal 3 Landside Store as of December 31, 2017	P 82,657,087.82

6.9 As of December 31, 2017, the Rent Expense-Building account for Terminal 3 Landside was adjusted per JEV No. 00576328. However, due to the delay in the opening of the Landside Stores, DFPC was deprived of the opportunity to earn additional income estimated at P810,423,068 based on the projected monthly income of P31,170,118 x 26 months.

6.10 ***We recommended that Management fast-track the construction of the fit-in-works as well as the acquisition of equipment needed for the Terminal 3 Landside Project and cause the immediate operationalization of the said outlet.***

6.11 Management submitted the following comments:

a) acknowledged the observation of COA on the delayed completion of the project as earlier conveyed; exerted efforts to fast track the completion of the project and established timelines therefore; expected completion of the project is on June 15, 2018; and

b) as of 25 April 2018, the percentage of completion for NAIA Terminal 3 Landslide Store Project was already 72.51%.

7. Peso sales totaling P0.979 million generated by the Iloilo store for eight (8) months were not deposited intact daily with the authorized government depository bank (AGDB) contrary to Section 21 of the Manual on the New Government Accounting System (MNGAS) resulting in the absconding of the funds by the Cashiering Operations Department (COD) Supervisor of said store/ outlet.

7.1 Rules and regulations on the proper handling of collections of the government: Section 21 of the Manual on the New Government Accounting System (MNGAS), requires:

> *"All Collecting Officers (COs) shall deposit intact all their collections, as well as collections turned over to them by sub-collectors/tellers, with authorized government depository bank (AGDB) daily or not later than the next banking day."*

Chapter II Paragraph 32 of the Revised Cash Examination Manual provides that:

> *"x x x Where collections are minimal and daily deposit thereof becomes costly and impractical, the COs shall deposit their collections at least once a week, **or as soon as the collections reach P10,000.00**." (Emphasis supplied)*

7.2 The DFPC entered into a deposit pick-up service arrangement to cater for some of its outlets that were far from the AGDBs such as the Iloilo Store Outlet. Collections of the store were picked-up by the bank twice a week only, since DFPC Iloilo store could not meet the required threshold for daily deposit pick-up service. This practice provided an opportunity for the Iloilo COD Supervisor to abscond with the accumulated un-deposited peso sales of the store totaling P979,362.

7.3 Records showed that the DFPC Iloilo Store approximate average daily peso sales was P30,627. Initial verification of the cash take out slips (CTOS) together with the deposit slips disclosed peso sales totaling P979,362 which were not covered by the bank deposit pick-up service. However, the Iloilo COD Supervisor managed to present four deposit slips totaling P979,362. Close examination showed that said deposit slips were not bank validated. Breakdown of the CTOs with deposit slips that were without the requisite bank validation were as follows:

Sales Period	Peso Cash Sales	Date of Unvalidated Bank Deposit Slips presented
June 15-21, 2017	291,623.00	June 2 2017
August 17-23, 2017	224,329.00	August 24, 2017
December 7-13, 2017	256,161.00	December 14, 2017
January 18-24, 2018	207,249.00	January 25, 2018
Total	**979,362.00**	

7.4 The accumulation of the un-deposited peso sales were not readily detected due to the practice of the Accounting Division to prepare the bank reconciliation statement only at the end of the year so as to validate the year-end cash-in-bank balance. Thus, the Accounting Department discovered the un-deposited peso sales only during the preparation of the 2017 BRS on February 2018. It was noted that there were deposits in transit for number of days, sometimes weeks, although they were supported with deposit slips. Upon close examination, however, it was discovered that the daily cash sales report were supported with deposit slips which were not validated by the bank, thus the Iloilo COD supervisor managed to abscond with the collections of the store.

7.5 ***We recommended and Management agreed to:***

a) require Collecting Officers to strictly adhere to the provisions of Section 21 of MNGAS, and Chapter II Par. 32 of the Revised Cash Examination Manual, on the proper handling of cash particularly on deposit of collections; for outlets that cannot comply due to the distance of the nearest AGDB, submit to the Commission on Audit a request for exemption, stating the reasons for their inability to comply with the regulations on the daily deposit thereof;

b) issue demand letter to the Iloilo COD Supervisor and file appropriate charges/institute measures to recover the missing funds; and

c) institute measures to safeguard collections such as the preparation of the monthly bank reconciliation statement, the regular monitoring and confirmation of sales deposits, conduct of periodic cash examinations by internal auditors, among others.

7.6 Management submitted the following comments:

a) the provisions of Section 21 of MNGAS and Chapter II Par. 32 of the Revised Cash Examination Manual, on the proper handling of cash particularly on deposits of collections are being complied with by DFPC. However, the daily receipts do not coincide with the pick-up of deposit which is 2 times a week schedule only. But they assured us that all sales receipt is being kept in the safety vault;

b) DFPC will comply with submission of request to the Chairman of Commission on Audit for exemption as regards to the non compliance to Sec. 21 of MNGAS; and

c) DFPC will file a case of malversation against the COD Supervisor.

8. Bank Reconciliation Statements (BRS) were not prepared monthly by the Accounting Department contrary to the requirements of Sections 5 and 7 of the Government Accounting Manual (GAM), which contributed to the late discovery of the accumulated un-deposited collections that were absconded by the Iloilo COD Supervisor.

8.1 Chapter 21 of the GAM provides the rules and regulations for the preparation of the Bank Reconciliation Statement, to wit:

"Sec. 5. Preparation of Bank Reconciliation Statement. *The chief accountant/designated staff shall within ten days from receipt of the monthly Bank Statement (BS) prepare the BRS in four copies."*

"Sec. 7. Reporting. *The Chief Accountant shall submit the BRS within twenty days after receipt of the monthly Bank Statement to the following:*

Original - COA Auditor (with all the supporting documents and JEVs)
Copy 2 - Head of Agency/Entity
Copy 3 - Accounting Division/Unit file
Copy 4 - Bank, if necessary"

8.2 The Accounting Department (AD) did not prepare the BRS monthly but prepared them at the year-end, thus contributing to the late discovery of the accumulated un-deposited collections of the Iloilo branch. The Internal Audit Department in its report dated March 26, 2018, disclosed that the DFPC Iloilo Store COD Supervisor took the peso cash sales of the Iloilo Store for the periods June 15-21, August 17-23, December 7-13, 2017 and January 18-24, 2018. The prompt preparation of the monthly BRS could have alerted management of the accumulation of un-deposited collections and could have averted or at least minimized loss of government funds.

8.3 ***We recommended that Management require the Accounting Division to strictly adhere with Section 5 and 7 Chapter 21 of the GAM on the preparation of the BRS.***

C. Performance Audit

9 Increase in sales during the last six years was outpaced by the increase in operating costs resulting in the continuous decline in net income from P545 million in CY 2012 down to P180 million in CY 2017; and the sales generated by nine (9) of the 14 stores/outlets were below their targeted sales.

9.1 Evaluation of the performance of DFPC during the last six years saw a continuing decline in net income as shown in the following tabulated data (rounded off in million Pesos):

	2012	2013	2014	2015	2016	2017
Net Sales	10,103	10,297	10,447	10,479	10,560	10,977
% Increase in Net Sales		1.92	1.46	0.31	0.77	3.95
Cost of Sales	7,972	8,266	8,519	8,482	8,460	8,780
Gross Profit	**2,131**	**2,031**	**1,928**	**1,997**	**2,100**	**2,197**
Total Operating Expense	**1,643**	**1,688**	**1,701**	**1,833**	**1,965**	**2,053**
% Increase Operating Exp		**2.73**	**0.77**	**7.76**	**7.20**	**4.48**
Income From Operations	**488**	**343**	**227**	**164**	**135**	**144**
Total Other Income	**57**	**33**	**44**	**54**	**29**	**36**
NET INCOME **% decrease in net income**	**545**	**376** **31.01**	**271** **27.93**	**218** **19.56**	**164** **24.77**	**180** **(9.77)**

Annual increase in net sales during the last five years averaged 1.68 percent with the lowest percentage increase of 0.31% being posted in CY 2015 and the highest increase in net sales at 3.95 percent generated during the year under audit (CY 2017). However said increase in net sales was out paced by the continued increase in operating costs which averaged 4.59 percent in the last five years. Highest increase in operating costs at 7.76 percent was posted in CY 2015 and the lowest increase thereon at 0.77 percent was posted in CY 2014. Other income generating activities also saw a declining trend resulting in the continued decrease in net income generated during the last five years. The net income of P545 million generated in CY 2012 saw a declining trend since CY 2013. The highest decrease in net income at 31.01 percent was felt in CY 2013. The CY 2017 net income of P180 million, however was 9.77 percent higher than the P164 million net income generated in CY 2016.

9.2 Nine (9) of the 14 DFPC stores were not able to meet their targeted sales for CY 2017 as shown in the following tabulated data:

Ran-king	Location	Sales in USD		Variance	
		Actual	**Target**	Target vs Actual	Per Cent (variance/ target)
5	Mactan Cebu Int'l. Airport	15,680,347	10,732,396	4,947,951	46%
6	Clark Int'l. Airport	2,431,686	1,971,725	459,961	23%
2	NAIA Terminal 1	49,094,195	48,391,382	702,813	14%
12	Bacolod Silay	627,310	553,453	73,857	13%
8	Waterfront-Lahug	2,047,192	1,855,073	192,119	10%
3	NAIA Terminal 2	33,510,819	35,756,729	(2,245,910)	(6%)
4	NAIA Terminal 3	27,455,109	31,311,096	(3,855,987)	(12%)
9	Iloilo Int'l. Airport	1,934,272	2,255,374	(321,102)	(14%)
10	Davao Int'l. Airport	871,564	1,032,395	(160,831)	(15%)
1	Fiesta Mall	76,607,231	91,812,450	(15,205,219)	(17%)
7	Kalibo Int'l. Airport	2,287,856	2,907,601	(619,745)	(21%)
11	Resorts World Manila	772,957	1,123,476	(350,519)	(31%)
14	Laoag Int'l. Airport	80,618	136,510	(55,891)	(41%)
13	Palawan LRC	93,706	158,344	(64,638)	(41%)
	Total	**213,494,862**	**229,998,004**	**(16,503,142)**	**(7.18%)**

The above table shows that about 92.82 percent of the targeted sales of US$229.998 million or US$213.494 million was generated during the year under audit. Only five stores/outlets (Mactan Cebu International Airport, Clark International Airport, NAIA Terminal 1, Bacolod Silay and Waterfront-Lahug) of the fourteen (14) DFPC stores were able to surpass their targeted sales. While the top five contributors in terms of sales generated during the year were: 1) Fiesta Mall - US$76.607 million; 2) NAIA Terminal 1 – US$ 49.094 million; 3) NAIA Terminal 2 – US$33.51 million; 4) NAIA Terminal 3 – US$ 27.455 million and 5) Mactan Cebu Intl. Airport – US$15.68 million.

9.3 ***We recommended that Management undertake aggressive measures to arrest the decline in net profit such as: a) ensuring that increases in operating costs are matched by an equitable increase in the net sales; and b) performance of stores/outlets are regularly evaluated to determine their profitability.***

9.4 Management commented that the non-attainment of the target sales can be attributed to the following factors:

a) Increase in foreign exchange rate;
b) Growing trend of online shopping;
c) Transfer of PAL Middle East flight to Terminal 1;
d) Reduction in passenger count of airlines;
e) Violent incident in Resorts World;
f) Declaration of martial law in Mindanao which reduced tourist travel; and
g) Other factors such as cancellation of flights and discontinued flights.

D. Gender and Development

10 The GAD Plan and Budget (GPB) for FY 2017 was neither reviewed nor approved by the Department of Tourism (DOT), accordingly not submitted to the Philippine Commission on Women (PCW) for review.

10.1 The GPB for CY 2017 prepared by DFPC was submitted to the DOT, however, it was not approved nor reviewed by the DOT.

Section 8.0 of the PCW-NEDA-DBM Joint Circular No. 2012-0, provides that:

"8.1 Pursuant to Section 37A.1 of the MCW-IRR, all agencies, offices, bureaus and all government instrumentalities and others concerned shall formulate their annual GPBs within the context of their mandates.

8.1.1 GOCC attached to line departments shall prepare their GPBs in accordance with their budget cycle and shall submit the same to their central office for review."

x x x

*"8.2 The GAD Plan Focal-Point System (**GPFS) of the agency shall review all submitted GPBs** and as needed, provide comments and recommendations for revision. x x x **The GFPS shall then submit the final GPBs and the corresponding GAD ARs to PCW** for review and endorsement to DBM."*

10.2 The CY 2017 GPB and Accomplishment Report (AR) of DFPC was prepared by the DFPC GAD Focal Point Person, however, this were not reviewed but was approved by the COO. Since the GFPS was not yet in place, the DFPC GPB and AR were not reviewed prior to its submission to the DOT. Verbal inquiry disclosed that the GPB and AR were submitted to the DOT but was not accepted due to late submission. Accordingly, the said GPB and AR were not forwarded to the PCW for review and endorsement to DBM.

10.3 Although the CY 2017 GAD plan and budget were not approved, management per its unapproved AR implemented three (3) GAD related activities that entailed no cost on the part of DFPC as follows:

a) Gender Fair Language Activity for HRMD Officers and Staff
b) Free spa and skin care
c) Technological and Entrepreneurship Classes

10.*4* ***We recommended that management strictly adhere to the provisions of Section 2.3 of PCW, NEDA and DBM Joint Circular 2012-01*****.**

10.5 Management submitted the following comments:

a) Consistent with the DFPC Action Plan for CY 2016, DFPC coordinated with the Department of Tourism but were instructed to submit GPB directly to the PCW;
b) The 2018 GPB and the GAD Accomplishment Report (AR) were submitted to the PCW on February 13, 2018. However, soft copies were not submitted as their Gender Mainstreaming Monitoring System (GMMS) cannot be accessed. DFPC are still awaiting PCWs comments and recommendations; and
c) As to eligibility of the activities reported in the GPB, DFPC shall immediately inform the Commission on Audit as soon as DFPC receive PCW's comments and recommendations on their submitted 2018 GPB and 2017 GAD AR. Moreover, GAD's related programs, activities and projects (PAPs) listed in their 2017 GAD AR were done in accordance with the PCW guidelines.

E. Compliance with Tax Laws

11. DFPC consistently withheld taxes on salaries and wages and other benefits paid to its officers and employees as well as on procurement of goods and services and remitted the withheld amounts to the Bureau of Internal Revenue (BIR) for CY 2017. Due to BIR as of December 31, 2017 were remitted to the Bureau, as follows:

Taxes Withheld	Due to BIR as of December 31, 2017	Date Remitted
Corporate Tax	6,568,174.87	January 10, 2018
Contractors Tax	100,353.14	January 9, 2018
Individual Tax	140,147.50	January 10, 2018
VAT on Purchases	1,866,107.61	January 10, 2018
VAT on Services	6,310,785.67	January 10, 2018
Employees Withholding Tax	1,917,064.11	January 9, 2018
Fringe Benefits Tax	429,102.17	January 10, 2018
Total	**17,331,735.07**	

F. Mandatory Contributions and remittances to GSIS, PHIC and Pag-ibig

12. Government Service and Insurance System (GSIS) Philippine Health Insurance Corporation (PHIC) and Pag-ibig Contributions and Remittances were likewise faithfully remitted on time.

    The DFPC being in transition stage from a sector of PTA to a corporate entity, accordingly, contributions to GSIS started only on January 1, 2016. Nevertheless, the Corporation was compliant with GSIS guidelines on collections and remittances of contributions pursuant to RA No. 8201, otherwise known as the GSIS Act of 1997. It also consistently withheld from source and remitted contributions to PHIC and Pag-ibig Fund. Contributions for December 2017 were remitted as follows:

Agency	Due as of December 31, 2017	Date Remitted
GSIS	P 1,759,445.70	January 10, 2018
PHIC	200,525.00	January 10, 2018
Pag-ibig	243,715.15	January 10, 2018

13. Contributions to Other Government Agencies

    DFPC's contributions to other government agencies were as follows:

Government Agency	Particulars	Amount
Manila International Airport Authority	Concession Privilege Fee	P 772,581,049
Bureau of Customs	Sin Tax/VAT on Liquors and Cigarettes	497,061,180
Department of Tourism	Mandatory contributions per RA 9593	78,272,466
Clark International Airport Authority	Concession Privilege Fee	9,803,741
Civil Aviation Authority of the Philippines	Concession Privilege Fee	705,762
Total		1,358,424,198

G. Status of Disallowances, Charges and Suspensions

14. Notice of Suspension No. 2017-001-913/16) dated June 20, 2017 in the amount of P14,031,731.19 pertaining to the payment of car plan benefits of DFPC executives and officers for CYs 2013 and 2016, was issued due to lack of approval from the Office of the President. The said NS matured into disallowance and the corresponding Notices of Disallowance were issued in February 2018.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

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

Reference	Observation	Recommendation	Status of Implementation
2016 AAR AO No.1 Page 25	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.	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.	Partially Implemented & Re-stated in Audit Observation (AO) No. 5
2016 AAR AO No.2 Page 26	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 .	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;	Partially Implemented & Re-stated in Audit Observation (AO) No. 6
		b) Submit all other necessary documents for auditorial and technical review of the project; and	Fully Implemented
		c) Disclose the latest status of the project including percentage of completion.	Fully Implemented

Reference	Observation	Recommendation	Status of Implementation
2016 AAR AO No.3 Page 28	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.	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.	Partially Implemented. Issued Notice of Disallowance Nos. 2018-004(13/16) to 2018-045(13/16) all dated February 19, 2018.
2016 AAR AO No.4 Page 33	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.	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 and reverse TA expenses to Accounts Receivable - Executives and Managers if DFPC is able to secure approval of the CPP from the OP.	Not Implemented. Payment for TA is still being continued, however the payments for car plan benefits were already disallowed in audit.
2016 AAR AO No.5 Page 35	Policies/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	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,	Not Implemented. Reiterated in Part II under AO No. 2.

Reference	Observation	Recommendation	Status of Implementation
	established.	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	Not Implemented. Reiterated in Part II under AO No. 2
		c) Clarify the basis on the allocation of fixed considerations to the actual expense accounts for CY 2016. Make adjustments if necessary.	Not Implemented. Reiterated in Part II under AO No. 2.
2016 AAR AO No.6 Page 38	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.	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	Fully Implemented
		b) Comply strictly with Sec. 7 Rule II, and Sec. 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.	Fully Implemented

Reference	Observation	Recommendation	Status of Implementation
2016 AAR AO No.7 Page 39	The Gender and Development Program and Budget (GADPB) 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		
	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.	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.	Partially Implemented. Reiterated in Part II, AO No. 10.
	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.	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	Partially Implemented. Reiterated in Part II, AO No. 10.
		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.	Not Implemented Reiterated in Part II, AO No. 10.

Reference	Observation	Recommendation	Status of Implementation
	GAD Accomplishment Report (AR) did not follow the prescribed form Joint Circular No. 2012-01.	Agency's Annual GAD AR should in the prescribed form.	Partially Implemented. Reiterated in Part II, AO No. 10.
	The GAD Focal Point System (GFPS) of the Agency was not created contrary to Rule VI, Section 37C of the MCW-IRR and PWC Memorandum Circular (MC) No. 2011-01 dated October 21, 2011.	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.	Fully Implemented