

EXECUTIVE SUMMARY

INTRODUCTION

The Civil Aviation Authority of the Philippines (CAAP) was created by virtue of Republic Act No. 9497 otherwise known as the Civil Aviation Authority Act of 2008 as an independent regulatory body with quasi-judicial and quasi-legislative powers and possessing corporate attributes. It is attached to the Department of Transportation and Communications (DOTC) for the purpose of policy coordination.

Under its Transitory Provisions, Air Transportation Office (ATO), created under the provisions of RA 776 also known as the "Civil Aeronautics Act of the Philippines" was abolished and all its powers, duties and rights it was vested by law and exercised by the said agency was transferred to CAAP. Likewise, all assets, real and personal property, funds and revenues owned by or vested in the different offices of the ATO, including all contracts, records and documents relating to the operations of the abolished agency and its offices and branches were similarly transferred to CAAP. Any real property owned by the national government or government-owned corporation or authority which is being used and utilized as office or facility by the ATO shall also be transferred and titled in favor of CAAP.

CAAP is mandated to provide safe and efficient air transport and regulatory services in the Philippines with jurisdiction over the restructuring of the civil system, the promotion, development and regulation of the technical, operational, safety and aviation security functions under the civil aviation authority.

The corporate powers of the Authority are vested in a Board which is composed of eight (8) members, as follows: Secretary of the Department of Transportation and Communications (DOTC) shall act as chairman ex-officio; Director General of the Civil Aviation (DGCA) who shall automatically be the vice-chairman of the Board; Secretary of the Department of Finance (DOF); Secretary of the Department of Foreign Affairs (DFA); Secretary of the Department of Justice (DOJ); Secretary of the Department of Interior and Local Government (DILG); Secretary of the Department of Labor and Employment (DOLE); and Secretary of the Department of Tourism (DOT).

CAAP is headed by a Director General (DG), who is also the Chief Executive and Operating Officer responsible for all civil aviation in the Philippines and the administration of RA 9497, supported by two (2) Deputy Director Generals.

With the creation of the CAAP in 2008, the Airport Clustering Scheme was adapted grouping the airports nationwide into ten (10) Area Centers. On July 1, 2013, in consonance with the present restructuring of the Authority, the re-organization of Area Centers increased it to twelve (12), to re-align with the political subdivision of the country.

SCOPE OF AUDIT AND AUDIT METHODOLOGY

The audit covered the operations and accounts of the Civil Aviation Authority of the Philippines for CY 2012. The objective of the audit is to express an opinion on the fairness of presentation of the Authority's financial position as at December 31, 2012 and results of operation and cash flows for the year then ended in accordance with accounting principles generally accepted in the Philippines.

The audit also included the verification of the Authority's compliance with existing laws, rules and regulations as well as management's policies. The validity and propriety of transactions selected through sampling was likewise checked.

The audit was conducted in accordance with the Philippines Standards of Auditing.

FINANCIAL HIGHLIGHTS

I. Comparative Financial Position

Particulars	2012	2011	Increase (Decrease)
Assets	23,193,408,000	26,026,560,029	(2,833,152,029)
Liabilities	6,386,238,738	3,441,636,673	2,944,602,065
Equity	16,807,169,262	22,584,923,356	(5,777,754,094)

II. Results of Operation

Particulars	2012	2011	Increase (Decrease)
Income	4,686,176,822	4,060,636,175	625,504,647
Expenses	2,634,981,449	2,703,006,515	(68,025,066)

III. Budget Utilization

Budgetary Items/Description	DBM Approved Budget	Budget Utilization	Balance
Personal Services	1,565,577,000	1,311,481,082	254,095,918
MOOE	1,571,778,200	1,176,309,728	395,468,472
Capital Outlay	3,244,550,800	18,905,398	3,225,645,402
Total	6,381,906,000	2,506,696,208	3,875,209,792

AUDITOR'S OPINION

The auditor rendered an adverse opinion on the fairness of presentation of the financial statements because of the significant effect of these doubtful accounts on the reliability of CAAP's financial statements, details of which follow:

1. The book balances of some ATO-transferred current assets and property, plant and equipment accounts, including those pertaining to unserviceable and fully depreciated assets, in the total amount of P5.543 billion and which were temporarily lodged in the "Other Assets" account pending verification remained unvalidated/unadjusted despite the lapse of almost four years since these were carried in the books of CAAP.

2. The validity and accuracy of the balance of Receivables accounts in the total amount of P10.603 billion as of December 31, 2012 cannot be ascertained. *Accounts Receivable* in the total amount of P6.733 billion, cannot be ascertained due to: a) the significant differences of the balances of Accounts Receivable per general ledger, subsidiary ledger and the aging of accounts receivable; b) the differences between the recorded balances and the balances per confirmation from airline companies; c) the failure of the Authority to send demand letters and charge penalties for delinquent customers. Further, the allowance provided for uncollectibility of P345.101 million on Accounts Receivables stated at P6.879 billion is inadequate considering the long outstanding status of a substantial portion of these accounts receivable. *Due from National Government Agencies (NGAs)* and *Due from Local Government Units (LGUs)* accounts amounting to P65.19 million and P42.56 million respectively, could not be ascertained due to inadequacy of accounting records. *Receivables - Disallowances /Charges* account amounting to P29.13 million in which the persons liable for these disallowances were still not established/determined to date.
3. The fairness of the Property, Plant and Equipment account stated at a net book value of P2.64 billion as of December 31, 2012 could not be validated/substantiated because of lack of/ or incomplete inventory taking and inadequacy of records relative thereto.
4. Accounts Payable totaling P114.943 million in the Head Office were certified as payables without the submission of supporting documents to warrant the recognition and recording of the obligation.

OTHER SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

In addition, the following are the other significant observations and recommendations:

1. Failure of the Authority to issue the assessment and billing statements for the operational charges on time resulted to non-collection of earned revenues for CY 2012 of P1.45 billion.

We recommended that the Authority should immediately acquire a program or a system to hasten the assessment and preparation of billings to the airline companies so that the recognition and collections of earned revenues could be recorded on the period it was earned. Further, a committee should be created to study on the contents of CAAP Circular No. 03-11 series of 2011, to come up with a more comprehensive guideline to optimize the revenue collections of the Authority.

2. Despite significant unexpended trust fund balances, the Authority has remitted to the International Civil Aviation Organization (ICAO) Trust Fund the full amount required for the particular year since 2009. Also, Annexes were not attached to the remittances which should have been the basis of the amount to be remitted at a given period per Management Services Agreement (MSA).

We recommended that the Authority should submit explanation/justification on why the remittances were made despite the significant balance of the ICAO Trust Fund and update COA on the status of the Management Service Agreement (MSA) dated September 25, 2007 and the required supporting documents to validate the disbursements made out of the

Trust Fund. Further, the Authority should adjust to expense accounts the 2011 contributions to ICAO.

- Unreliable balance of Advances to Officers and Employees account in the Head Office in the total amount of P41.647 million as of December 31, 2012 due to P1.573 million difference as compared to the totals of the subsidiary ledgers. Further, prior years' cash advances for travel and former SDOs amounting to P9.274 million and P3.432 million respectively remain unliquidated despite the issuance of COA Circular No. 2012-004.

We recommended that the Authority must enforce liquidation/settlement of all unliquidated cash advances in accordance with the provisions of COA Circular No. 2012-004 and withhold any money due them until their cash advances are liquidated and henceforth, strictly adhere to the pertinent provisions of COA Circular 97-002 dated February 10, 1997 in granting and utilization of cash. The Authority should also submit explanation why those retired, separated and deceased employees were able to leave CAAP without settling all their accountabilities.

- Payment of the Performance Enhancement Allowance for CY 2012 in the total amount of P125.902 million lacks legal basis and not provided for in the DBM approved CAAP Corporate Operating Budget (COB) for CY 2012.

We recommended that the Authority should submit legal basis for the grant of the PEA, basis for the budget for PEA and submit explanation/justification why such payment was not subject to tax.

STATEMENT OF SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2012, the total suspensions and disallowances issued to the Authority follows:

Particulars	Suspensions	Disallowances
CAAP – Head Office	92,668,913.67	3,037,956.47
CAAP – Area Centers	60,336,372.05	12,506,916.57
Total	153,005,285.72	15,544,873.04

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Particulars	Fully Implemented	Partially implemented	Not Implemented
CAAP – Head Office	12	10	26
CAAP – Area Centers	40	43	46
Total	52	53	72