



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

August 13, 2014

THE BOARD OF DIRECTORS
Civil Aviation Authority of the Philippines (CAAP)
Old Mia Road, Pasay City, Metro Manila

Handwritten signature
MARILYN R. SANDOZ

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and operations of the Civil Aviation Authority of the Philippines (CAAP) for the year ended December 31, 2013.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements due to the following:

1. Significant effect of the following doubtful accounts transferred from the abolished Air Transportation Office (ATO) to the CAAP books of accounts since CY 2008 cannot be substantiated due to the inadequacy of the accounting records and/or absence of supporting documents:
 - Various Current Assets, Property and Equipment, and Unserviceable and Fully Depreciated Assets totaling P5.221 billion, P4.362 billion in the Head Office and P859.026 million in the Area Centers, that were temporarily recorded under the Other Assets account, remained unreconciled and unadjusted. This comprises 24 per cent of the total assets of the Authority;
 - Accounts Receivable per General Ledger of P7.409 billion (net) has a variance of P737.175 million against the aging schedule of AR, has negative balances in the total amount of P27.415 million in the Head Office and debtors' unsettled accounts of P5.510 billion or 88 per cent of the total AR of the Head Office dates back to 1997;
 - Due from National Government Agencies (NGAs) and Due from Local Government Units (LGUs) of P65.001 million and P42.586 million, respectively, had no significant movement since their transfer from ATO; and

- The physical inventory conducted by the Authority on its property and equipment totaling P2.967 billion in CY 2013 cannot be relied upon since deficiencies were noted in the conduct of inventory and in the Report of Physical Count of Property, Plant and Equipment.
2. Accounts Payable totaling P53.529 million were again certified as payables even in the absence of supporting documents to show that actual deliveries have been made and/or services have been rendered.

The significant observations and recommendations that need immediate actions are as follows:

1. Only several properties in the Head Office and in 21 airports with total market value of P9.490 billion were insured with the GSIS, leaving the other properties within the Head Office and within the remaining 61 airports unsecured from losses that may arise out of natural and/or man-made catastrophe.

We recommended that management exert extra effort to adhere to the provision of R.A. No. 656 that requires insuring its insurable properties with the GSIS for protection against any insurable risk.

2. As of December 31, 2013 a total of P7.357 million of prior years' unliquidated Cash Advances (CAs) in the Head Office were not settled, and unliquidated CAs beyond the reglementary period for CY 2013 totaled P5.192 million or 28 per cent of the total cash advances granted for the year.

We reiterated our recommendations that the Authority's Management:

- a) Require strict adherence to the pertinent provisions of COA Circular No. 97-002 dated February 10, 1997 regarding the granting, utilization and liquidation of cash advances and COA Circular No. 2012-004 and enjoin those with outstanding cash advances to immediately liquidate their long outstanding cash advances;
 - b) Cause or order the withholding of the payment of any money due the officers and employees concerned for them to immediately liquidate their long outstanding cash advances; and
 - c.) Require the Accountant to strictly monitor the liquidation of CAs.
3. The propriety and correctness of the Deferred Charges account totaling P138.274 million is doubtful because disbursements and other adjustments in the total amount of P21.237 million have not been recognized in the books and related supporting documents have not been submitted.

We reiterated our previous years' recommendations that the Authority require the Accounting Division to:

- a) Prepare reconciliation of its records with ICAO records and book up the reconciling items immediately;
- b) Submit the supporting documents for all the recorded disbursements of the Trust Fund;

- g) Prepare the liquidation reports of the remittances other than the Trust Fund and prepare necessary adjusting entries; and
- h) Maintain subsidiary ledgers (SLs) for Deferred Charges account to properly monitor the account balance.

The other audit observations together with the recommended courses of action which were discussed by the Audit Group with concerned Management officials and staff during the exit conference conducted on June 4, 2014 are presented in detail in Part II of the report.

In a letter of even date, we requested the Authority's Director General to implement the recommendations contained in the report and inform this Commission of the actions taken thereon by accomplishing the Agency Action Plan and the Status of Implementation Form and returning the same to us within 60 days from the date of receipt hereof.

We acknowledge the support and cooperation that the Management has extended to the Audit Group, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


LEILA S. PARAS
Director IV

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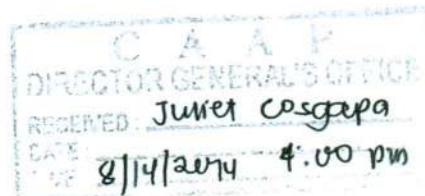
The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representative
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled
Corporations
The Presidential Management Staff, Office of the President
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REPUBLIC OF THE PHILIPPINES
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August 13, 2014

LT GEN WILLIAM K. HOTCHKISS III AFP (Ret.)
Director General
Civil Aviation Authority of the Philippines (CAAP)
Old Mia Road, Pasay City, Metro Manila



Dear Lt Gen Hotchkiss:

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We respectfully request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and the Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt hereof.

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LEILA S. PARAS
Director IV

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