

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.

CAAP under Section 2 of RA No. 9497 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.

With the creation of the CAAP in 2008, the Airport Clustering Scheme was adopted 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 and Objectives of Audit

The audit covered the accounts, transactions and operations of CAAP for calendar year 2013. It was aimed at expressing an opinion as to whether the financial statements present fairly the Authority's financial position, results of operations and cash flows, and at determining the Authority's compliance with pertinent laws, rules and regulations.

Operational Highlights

As discussed in Observation No. 1 of this Report, the Authority was able to achieve its main objective of regaining its stature as a credible and world class civil aviation authority by way of the following:

1. Full compliance with the Standards and Recommended Practices (SARP) set by the International Civil Aviation Organization ICAO after it lifted the Significant Safety Concerns (SSCs) status of the country on March 2013;
2. European Union granting Philippine Airlines and Cebu Pacific on July 11, 2013 and April 10, 2014, respectively, the privilege to operate again in Europe; and
3. Regaining the country's US FAA Category 1 status on April 9, 2014.

These accomplishments are in line with its mandate under Section 2 of RA No. 9497.

Financial Highlights

I. Comparative Financial Position

	2013	2012	Increase (Decrease)
Assets	21,548,253,681	23,193,408,000	(1,645,154,319)
Liabilities	2,829,419,871	6,386,238,738	(3,556,818,867)
Equity	18,718,833,810	16,807,169,262	1,911,664,548

The significant decrease in the assets and liabilities was due to the reconciliation of the reciprocal accounts, Due to Central Office and the Due from Regional Office, respectively. The Authority's non-set up of Dividends Payable which represents the 50% of net profit for calendar year 2013, likewise resulted in the decrease in the liabilities.

II. Comparative Results of Operations

	2013	2012	Increase (Decrease)
Income	5,009,518,029	4,686,176,822	323,341,207
Personal Services	1,445,865,414	1,352,605,495	93,259,919
MOOE	1,497,089,091	1,281,227,892	215,861,199
Financial Expenses	1,103,948	1,148,061	(44,113)
Other Income (Loss)	19,852,611	(125,487,953)	145,340,564
Net Profit	2,085,312,187	1,925,707,420	159,604,767

The main reason for the increase of the net profit for calendar year 2013 were the increase in the income of the Authority and the gain on foreign exchange brought about by the appreciation of our peso.

Independent Auditor's Report on the FS

We 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.

Significant Audit Observations and Recommendations

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 are 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;
- c) Prepare the liquidation reports of the remittances other than the Trust Fund and prepare necessary adjusting entries; and
- d) Maintain SLs for Deferred Charges account to properly monitor the account balance.

Summary of total suspensions, disallowances and charges as of year-end

Particulars	Suspensions	Disallowances	Charges
CAAP – Head Office	118,407,556.18	56,271,758.83	19,537.80
CAAP – Area Centers	94,325,067.15	106,530,411.20	0
Total	212,732,623.33	162,802,170.03	19,537.80

Issuance of Notices of Suspension are attributable to non-submission of the required documents in the payment of the financial assistance, the nationwide appraisal of CAAP properties, the 15% advance payments to contractors and the payment to consultants. While the lack of legal basis for the payment of the Performance Enhancement Allowance accounted for most of the issued Notices of Disallowances as of December 31, 2013.

Status of Implementation of Prior Years' Audit Recommendations

Of the 45 prior years' recommendations in the Head Office, 14 were fully implemented, four were partially implemented and 27 were not implemented.

While in the Area Centers except Area 8 (Tacloban City), out of the 119 prior years' recommendations, 43 were fully implemented, 48 were partially implemented and 28 were not implemented.