

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 10 Area Centers. On July 1, 2013, in consonance with the present restructuring of the Authority, the Area Centers have been increased to 12, to realign 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 2014. 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.

Financial Highlights

I. Comparative Financial Position

	2014	2013	Increase (Decrease)
Assets	24,230,529,652	21,548,253,681	2,682,275,971
Liabilities	3,133,599,111	2,829,419,871	304,179,240
Equity	21,096,930,541	18,718,833,810	2,378,096,731

II. Comparative Results of Operations

	2014	2013	Increase (Decrease)
Income	5,737,942,517	5,009,518,029	728,424,488
Expenses	3,294,692,565	2,944,058,453	350,634,112
	2,443,249,952	2,065,459,576	377,790,376
Other Income (Expenses)	23,086,789	19,852,611	3,234,178
Net Profit	2,466,336,741	2,085,312,187	381,024,554

Independent Auditor's Report on the Financial Statements

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:
 - The Receivables' net balance of P8.457 billion is uncertain owing to the substantial variance between the total Accounts Receivable (AR) per General Ledger and per aging schedules of AR amounting to P797.912 million in the Head Office and P14.440 million in the Area Centers. There are also debtor's unsettled accounts which dates back to 1997 in the total amount of P4.468 billion in the Head Office and P857.885 million in the Area Centers and negative balances in the total amount of P37.744 million in the Head Office;
 - Various Current Assets, Property and Equipment, and Unserviceable and Fully Depreciated Assets transferred from ATO books, which were temporarily lodged under the "Other Assets" in CY 2008 pending verification, remain unreconciled and unadjusted. The account has a balance of P4.362 billion and P0.223 billion in the Head Office and Area Centers, respectively for a total balance of P4.585 billion; and
 - The inadequately-conducted physical inventory of Property and Equipment (PE) and the inefficient property custodianship system of the Authority renders the balance of the PPE account amounting to P1.099 billion unreliable which include which include the transferred PE from ATO books amounting to P134.011 million.
2. Cash in Bank is understated by P348.269 million as a result of unrecognized bank credits and other reconciling items; and
3. Unadjusted/unreconciled prior years' obligated transactions amounting to P22.269 million in the Head Office as of December 31, 2014.

Significant Audit Observations and Recommendations

1. The balance of the Other Prepaid Expenses account amounting to P34.044 million as at December 31, 2014 remains doubtful due to non-conduct of physical count, improperly maintained stock cards (SCs) and stock ledger cards (SLCs) and the non-reconciliation of the property and accounting records.

We reiterated our recommendations that Management require:

- a. Concerned officials and employees to conduct physical count of all inventories once every semester and submit to COA the Report of Physical Count of Inventories in the prescribed format not later than July 31 and January 31 of each year and reconcile the results of the physical count with the property and accounting records;

- b. The Accounting Division to:
 - maintain properly SLCs and reconcile the same with the general ledger balance;
 - exert extra effort to reconcile, document and adjust the unaccounted balance of Other Supplies Inventory and Other Prepaid Expense accounts to the proper accounts; and
 - c. The Supply Section and the Office of the Flight Surgeon and Aviation Medicine (OFSAM) to prepare/maintain/update the SCs for all inventory accounts.
2. Outstanding unliquidated cash advances (CAs) as of December 31, 2014 of P3.177 million out of the cash advances granted in CY 2014 and P7.93 million from prior years' cash advances.

We reiterated our recommendations that the Authority:

- a. Require strict adherence to the provisions of: 1) COA Circular No. 2012-004 to compel its officers and employees to immediately liquidate their long outstanding cash advances; and 2) COA Circular No. 97-002 on the granting, utilization and liquidation of cash advances;
 - b. Cause or order the withholding of payment of any money due to officers and employees who have long outstanding cash advances; and
 - c. Require the Accountant to strictly monitor the liquidation of CAs and enforce deduction from the salary of employees in cases of failure to liquidate within the prescribed period as stated in the signed "Authority to Deduct", attached to the cash advance vouchers in compliance to Authority Order No. 111-10 dated May 7, 2010.
3. The propriety and correctness of the Deferred Charges account totaling P100.041 million are doubtful.

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

- a. Submit the supporting documents for all the recorded disbursements of the Trust Fund; and
- b. Prepare the liquidation reports of the remittances other than the Trust Fund and prepare necessary adjusting entries.

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

Particulars	Suspensions	Disallowances	Charges
CAAP – Head Office	67,622,075.17	192,787,445.74	19,537.80
CAAP – Area Centers	27,596,159.98	231,396,686.11	0
Total	95,218,235.15	424,184,131.85	19,537.80

Issuances of Notices of Suspension are attributable to the non-submission of the required documents in the payment of the nationwide appraisal of CAAP properties and the payment to consultants and contractual employees in the Head Office. The lack of legal basis for the payment of the Performance Enhancement Allowance, Year-end Financial Assistance, Recognition Pay and the Achievement Bonus accounted for most of the issued Notices of Disallowances. Management has submitted to the Office of the Cluster Director their Memoranda of Appeal where in Cluster IV Decisions were already rendered to Appeals for Performance Enhancement Allowance, Year-end Financial Assistance and Recognition Pay.

We recommended that Management submit the required documents on the suspended transactions and secure the Authority from the Office of the President or DBM on the payment of additional allowances and other financial benefits to all employees of CAAP and include in the COB the budget thereof.

Status of Implementation of Prior Years' Audit Recommendations

Of the 48 prior years' recommendations in the Head Office, 17 were fully implemented, 13 were partially implemented and 18 were not implemented.

In the Area Centers, out of the 169 prior years' recommendations, 54 were fully implemented, 78 were partially implemented and 37 were not implemented.