

## EXECUTIVE SUMMARY

### Introduction

The Civil Aviation Authority of the Philippines (CAAP) was created by virtue of Republic Act (RA) 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 Section 2 of RA 9497, 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.

With the creation of 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 CAAP, the Area Centers have been increased to 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 2015. It was aimed at expressing an opinion as to whether the financial statements present fairly CAAP's financial position, results of operations and cash flows, and at determining CAAP's compliance with pertinent laws, rules and regulations.

### Financial Highlights

#### Comparative Financial Position

|             | <b>2015</b>    | <b>2014</b>    | <b>Increase<br/>(Decrease)</b> |
|-------------|----------------|----------------|--------------------------------|
| Assets      | 27,724,042,155 | 24,230,529,652 | 3,493,512,503                  |
| Liabilities | 3,381,146,334  | 3,133,599,111  | 247,547,223                    |
| Equity      | 24,342,895,821 | 21,096,930,541 | 3,245,965,280                  |

#### Comparative Results of Operations

|                         | <b>2015</b>   | <b>2014</b>   | <b>Increase<br/>(Decrease)</b> |
|-------------------------|---------------|---------------|--------------------------------|
| Income                  | 6,655,148,328 | 5,737,942,517 | 917,205,811                    |
| Expenses                | 3,458,767,069 | 3,294,692,565 | 164,074,504                    |
|                         | 3,196,381,259 | 2,443,249,952 | 753,131,307                    |
| Other Income (Expenses) | 79,871,163    | 23,086,789    | 56,784,374                     |
| Net Profit              | 3,276,252,422 | 2,466,336,741 | 809,915,681                    |

## **Independent Auditor's Report on the Financial Statements**

We rendered an adverse opinion on the fairness of presentation of CAAP's financial statements due to the following:

Accounts receivable totaling P5.576 billion which remained outstanding since 1997 were provided an allowance for uncollectibility of P0.453 million and P0.438 million only as of December 31, 2015 and 2014, respectively, thereby overstating the reported receivables as of even dates by P5.123 billion and P5.138 billion, respectively. In addition, Cash in Banks and Accounts Receivable accounts are understated and overstated, respectively by P125.025 million and P348.269 million as of December 31, 2015 and 2014, respectively, representing unbooked reconciling items consisting of unaccounted/unidentified deposits, remittances and bank debit/credit memos. Further, property and equipment account is understated by the amount equivalent to the fair market value of 23 parcels of land located at Parañaque City with a total land area of 20,176 square meters which remained unrecorded in CAAP books.

Included in the Statements of Financial Position is an account designated as "Other Assets" with balances of P4.684 billion and P4.585 billion as of December 31, 2015 and 2014, respectively. The account consists of various current assets, property and equipment, and other asset accounts transferred from ATO books in 2008 which were temporarily lodged under the "Other Asset" account pending verification, reconciliation and adjustment. Per verification, likewise, are the variances of P751.968 million and P812.352 million as of December 31, 2015 and 2014, respectively, between the general ledger and the aging schedule balances of accounts receivable. Moreover, Deferred Charges account with balances of P97.250 million and 103.491 million as of December 31, 2015 and 2014, respectively, are doubtful. We were not able to conduct alternative audit procedures to establish the accuracy of the balances of the mentioned accounts because of the absence of documents and inadequacy of the accounting records.

## **Other Significant Audit Observations and Recommendations**

1. P1.871 billion or 52 per cent of the total income as of December 31, 2015 remains uncollected

We reiterated our recommendation that Management adopt an effective billing and collection system which include among others the following features:

- a) Automation of billing data, invoicing and collection; and
  - b) Formulation of policy on imposition of fee/penalty for late payments and initiation of legal action on delinquent customers.
2. Overpayment of P1.205 million to Bayan Telecommunications, Inc. (BayanTel)

We recommended that the Authority:

- a) Submit an explanation for the payment of the overbilling of BayanTel; and
- b) Cause the recovery of the overpaid amount from BayanTel.

3. The balance of the Other Prepaid Expenses account amounting to P33.004 million as of December 31, 2015 in the Head Office remains doubtful due to non-conduct of physical count and non-reconciliation of the report thereon with 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 the Report of Physical Count of Inventories (RCPIs) 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 and update stock ledger cards and conduct regular reconciliation with the Supply division
    - exert extra effort to reconcile, document and adjust the unaccounted balance of Drugs and Medicines Inventory, Other Supplies Inventory and Other Prepaid Expense accounts to the proper accounts; and
  - c.) The Supply Section and Office of the Flight Surgeon and Aviation Medicine (OFSAM) to prepare/maintain/update the stock cards for all inventory accounts under their accountability.
4. Cash Advances (CAs) for Officers and Employees of P3.308 million and P5.540 million granted in CY 2015 and prior years, respectively, remain outstanding at year end, in addition to the unsettled outstanding receivables of P6.337 million from former officers and employees. Moreover, the general ledger (GL) balance and totals of the subsidiary ledger (SL) balances and Aging Schedule of the Advances to Officers and Employees and Other Receivable accounts are still not reconciled

We reiterated our recommendation that the Authority:

- a) Require all officers and employees to strictly adhere to the provisions of 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 the officers and employees with long outstanding cash advances and strictly enforce the deduction from the salary of the employees in case of failure to liquidate their current CAs within the prescribed period as stated in the signed "Authority to Deduct", attached to the cash advance vouchers;
- c) Exert best efforts to reconcile the differences noted between the GL, SL and Aging Schedule and prepare the corresponding adjusting entries; and
- d) Exert best efforts to recover the outstanding accountabilities by:
  - Requiring those who left without being cleared or proper resignation to claim their terminal leaves benefits in order for the Authority to offset their accountabilities;

- Where there are no terminal benefits available, have the separated employees or the next of kin of the deceased settle the amount through refund; and
- Should the aforementioned methods prove to be futile, the Authority should resort to legal remedies.

**Summary of Total Suspensions, Disallowances and Charges as of Year-end**

| <b>Particulars</b>  | <b>Suspensions</b> | <b>Disallowances</b> | <b>Charges</b> |
|---------------------|--------------------|----------------------|----------------|
| CAAP – Head Office  | 81,058,105         | 204,892,767          | 30,913         |
| CAAP – Area Centers | 33,969,776         | 330,125,736          | 0              |
| <b>Total</b>        | <b>115,027,881</b> | <b>535,018,503</b>   | <b>30,913</b>  |

Issuance of Notices of Suspension are attributable to non-submission of the required documents in the payment of the nationwide appraisal of CAAP properties and the payment of salaries to technical position employees which lacks the presidential approval. 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. The Office of the Cluster Director has already affirmed the total amount disallowed pertaining to the above allowances and other financial benefits.

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.

Management informed our Office that the Office of the President has issued the post-facto approval of the additional allowances and other financial benefits to all employees of CAAP and are currently waiting for the certified true copies they have requested from the Office of the President’s Record Division to be attached to the Petitions for Review for those disallowed benefits and to the letter in settlement of the notices of suspension issued for the salaries of the technical position employees.

**Status of Implementation of Prior Years’ Audit Recommendations**

Of the 72 prior years’ recommendations in the Head Office, 23 were implemented, 23 were partially implemented and 26 were not implemented.