

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 headed by a Director General who shall be appointed by the President of the Philippines with a tenure of office for a period of four (4) years. The Authority is attached to the Department of Transportation (DOTr) 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.

At present, CAAP has 12 Area Centers in consonance with the present restructuring of CAAP, to re-align with the political subdivisions of the country.

Scope and Objectives of Audit

The audit covered the accounts, transactions and operations of CAAP for calendar years 2016 and 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

	2016	2015	Increase (Decrease)
Assets	32,104,307,205	27,724,042,155	4,380,265,049
Liabilities	7,471,256,911	3,381,146,334	4,090,110,577
Equity	24,633,050,294	24,342,895,821	290,154,473

Comparative Results of Operations

	2016	2015	Increase (Decrease)
Income	7,845,557,608	6,655,148,328	1,190,409,280
Expenses	3,729,897,803	3,458,767,069	271,130,734
	4,115,659,805	3,196,381,259	919,278,546
Other Income (Expenses)	134,101,640	79,871,163	54,230,477
Net Profit	4,249,761,445	3,276,252,422	973,509,023

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:

Long-outstanding accounts receivable of P4.739 billion and P5.576 billion as of December 31, 2016 and 2015, respectively, with the earliest accounts dating back to 1977, were provided with an allowance for uncollectibility of only 9.55% in 2016 and 8.66% in 2015, thereby overstating receivables as of those dates by P4.256 billion and P5.123 billion, respectively. Moreover, accounts receivable and cash in banks were, respectively, overstated and understated by P133.070 million in 2016 and P125.025 million in 2015, representing unrecognized reconciling items consisting of unaccounted/unidentified deposits, remittances and bank debit/credit memos.

The reported property, plant and equipment in the total amount of P9.902 billion as of December 31, 2016 differs by P2.784 billion when compared with the balance per inventory report/property records. On the other hand, other assets of P4.684 billion as of December 31, 2016 and 2015, consisting of the balances of various current assets, property and equipment and other transferred asset accounts from the books of the then Air Transportation Office in 2008 and were temporarily lodged under the other assets account pending verification, reconciliation and adjustments, remained as such with no significant changes to date. We were not able to conduct alternative audit procedures to establish the validity and accuracy of the reported balances of the above-mentioned accounts because of the absence of documents and the inadequacy of the accounting records.

Other Significant Audit Observations and Recommendations

1. Cash advances (CA) granted to officers and employees for travels recorded under *Advances to Officers and Employees* account amounting to P7.838 million in the Head Office remained unliquidated at the end of the year, due to Management's failure to strictly enforce the provisions of COA Circular No. 96-004; Executive Order No. 248, as amended by EO 298; and Presidential Decree No. 1445, thus casting doubts on whether the purpose of these cash advances have been served.

We recommend that Management:

- a. Revisit its practices in the grant, utilization and liquidation of cash advances and henceforth stop the practice of granting additional cash advance/s to accountable officers and employees unless their previous cash advances have been fully accounted for/liquidated;
- b. Direct the Chief Accountant to strictly enforce the submission of liquidation documents as soon as the purpose of the CA has been served;
- c. Adopt stricter measure to enforce settlement of long outstanding/unliquidated CAs including imposition of sanctions against accountable officers and employees who continue to neglect their obligations in accordance with the provision of COA Circular No. 96-004, EO 248, as amended by EO 298 and PD 1445.

2. The balance of Other Receivables (149) account as of December 31, 2016 amounting to P28.360 million is unreliable due to: a) inclusion of balances of cash advances granted to officers and employees who have already died, retired and resigned amounting to P6.195 million; and b) unreconciled discrepancy between the GL and SL balances amounting to P20.326 million.

We recommended that Management:

- a. Instruct the Chief Accountant to exert extra efforts to demand the liquidation of these cash advances granted to those who are no longer connected with the Authority;
 - b. Consider requesting for Authority to write off in accordance with the guidelines set forth under COA Circular No. 2016-005 for those already determined to be dormant receivables; and
 - c. Assign Accounting personnel to conduct detailed examination on the discrepancy and prepare the necessary adjustments.
3. Basis for the computation of Air Navigational Charges (ANC) billed to airline operators/customers and recorded in the books as Income from Communication Facilities not in accordance with CAAP Circular No. 03-11, series of 2011.

We recommended that Management:

- a. Instruct the ATS to use the actual distance flown as per Flight Statistics Thales as the basis for the computation of the ANC pursuant to the provision of CAAP Circular No. 03-11 series of 2011, subject to the distance cap provided in Board Resolution No. 2013-003;
- b. Direct the Billing Section of the Accounting Division to recompute the amount billed to all the airlines and immediately send the revised billing statement for collection of income due the Authority if found to be not in accordance with the regulation;
- c. Direct the Billing Section of the Accounting Division to comply with Section 4, Part III of CAAP Circular No. 03-11, series of 2011 which states that *For each flight at any airport in the Philippines, a charge equivalent to one half (1/2) of the charge computed based on the derived formula of Section 2 of this part shall be imposed;*
- d. Direct the Billing Section of the Accounting Division to strictly observe Section 4, Part III of CAAP Circular No. 03-11, series of 2011 which further states that *Unless otherwise provided, charges for Domestic Commercial (Scheduled/ Non-scheduled) and Domestic General Aviation Flights, however, shall not be less than Four Hundred Pesos (Php 400.00).";* and
- e. Require the accountant to observe consistency in recognizing income from early opening charges and extension charges.

4. Deficiencies in internal control for billing, collection and requisition of accountable forms are still prevalent.

We recommended that Management instruct the Chief Accountant to:

- a. Properly identify the name and addresses of the operators/ customers in the billing statements to expedite the sending out of the same;
- b. Prepare the schedule of overdue accounts receivable on a quarterly basis and for the Director General or his authorized representative to examine, review and sign thereafter and indicate the actions instituted or future actions to be taken for their collection as provided in Section 64 (2) of GAAM, Vol. I; and
- c. Make an assessment of the Impairment Losses on the accounts receivable, if any, and prepare a request for write-off as provided in COA Circular No. 2016-005 dated December 19, 2016 and/or provide an allowance for the identified uncollectible accounts.

We also reiterated our prior year's recommendation that Management direct the Internal Audit Service and Administrative and Finance Service to expedite their review and evaluation of its current practices including the preceding recommendations and formulate and issue written policy guidelines to guide its personnel on existing laws, rules and regulations pertaining to the billing of revenue, receipt and deposit of collections and requisition of accountable forms.

5. The absence of the electronic linkage between CAAP's flight operating system to the Billing Section of the Accounting Division cause delays in the generation of flight data capture processes and adversely affects the timely, efficient and effective billing system and accurate recording of transactions.

We recommended that Management instruct the ATS to link the automatic flight operating system to the Accounting Division to expedite the preparation of the billing statements and its recording in the books of accounts.

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

Particulars	Suspensions	Disallowances	Charges
CAAP - Head Office	29,979,061.56	211,019,525.36	30,912.65
CAAP - Area Centers	34,548,961.79	357,406,235.46	-
Total	64,528,023.35	568,425,760.82	30,912.65

Status of Implementation of the Prior Years' Audit Recommendations

Of the 88 prior year's recommendations in the Head Office, 38 were implemented, 16 were partially implemented and 34 were not implemented.