

EXECUTIVE SUMMARY

INTRODUCTION

The Civil Aviation Authority of the Philippines (CAAP) was created under Republic Act (RA) No. 9497, otherwise known as the Civil Aviation Authority Act of 2008, as an independent regulatory body vested with quasi-judicial and quasi-legislative powers 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 No. 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 aviation system, the promotion, development and regulation of the technical, operational, safety and aviation security functions under the civil aviation authority.

At present, CAAP has 75 satellite airports which were grouped into four (4) Area Clusters - Laoag Area Center, Iloilo Area Center, Tacloban Area Center and Davao Area Center.

CAAP was complemented with 6,297 personnel composed of 2,892 regular employees, 3,278 employees under the Job Order contract and 127 consultants and has a Corporate Operating Budget amounting to P10.521 billion for CY 2018.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

| | 2018 | 2017 | Increase (Decrease) |
|-------------|----------------|----------------|------------------------|
| Assets | 69,728,523,529 | 72,707,884,389 | (2,979,360,860) |
| Liabilities | 2,660,817,275 | 4,886,010,714 | (2,225,193,439) |
| Equity | 67,067,706,254 | 67,821,873,675 | (754,167,421) |

Comparative Results of Operations

| | 2018 | 2017 | Increase (Decrease) |
|------------|----------------|---------------|------------------------|
| Income | 10,224,256,090 | 9,159,535,241 | 1,064,720,849 |
| Expenses | 7,754,214,765 | 7,621,725,669 | 132,489,096 |
| Net Income | 2,470,041,325 | 1,537,809,572 | 932,231,753 |

SCOPE AND OBJECTIVES OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and transactions of CAAP for the period January 1 to December 31, 2018 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2018 and 2017. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

We rendered a qualified opinion on the fairness of presentation of the financial statements of CAAP for the years 2018 and 2017 due to the non-reconciliation of the variance between the balance per General Ledger (GL) and the balance per inventory report/property records of the Property and Equipment (PE) account amounting to P19.163 billion as of December 31, 2018 and P105.066 billion as of December 31, 2017; the non-reconciliation of the variance of P919.549 million as of December 31, 2018 and P100.696 million as of December 31, 2017 between the GL balances and subsidiary ledgers of the Accounts Receivable (AR) account, as well as the variance between the balance per books of the AR account and the confirmation replies from creditors amounting to P425.352 million in CY 2018, which cast doubt on the reliability of the recorded amounts as of December 31, 2018 and 2017, respectively, of the following: Property and Equipment account of P78.455 billion and P77.722 billion, and Accounts Receivable account of P4.480 billion and P4.068 billion. The status of CAAP's records and the inadequacy of data/information did not permit us to apply alternative audit procedures, thus, the adjustments necessary in the circumstances cannot be determined.

The faithful representation of the Accounts Payable (AP) account was not achieved due to the existence of unsubstantiated accruals in the AP account amounting to P156.823 million consisting of Construction in Progress (CIP) amounting to P148.417 million and expenses of P8.406 million, thus overstating the AP and CIP accounts by P156.823 million and 148.417 million, respectively, as of December 31, 2018. Expenses for CY 2018 is likewise overstated by P8.406 million. The Conceptual Framework for Financial Reporting states that one of the elements directly related to financial position is the liability. A liability is defined as a present obligation of the entity arising from past events the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. There is no proof that the Authority has obligations amounting to P156.823 million as the AP was supported by mere Budget Utilization Request and Certification of Work Accomplishment issued by the Aerodrome Development and Management Service in the case of the recorded CIP. There were no progress billings from the contractor/suppliers concerned, thus no valid claims.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

Below are the other significant audit observations and recommendations which are discussed in detail in Part II of this Report.

1. Investment in United Coconut Planter's Life Assurance Corporation (COCOLIFE) for a single-pay variable life insurance in the amount of P500 million is without approval

by the Board, without in-depth study prior to the investment, and with no adequate criteria for the selection of the insured 10 keymen.

We recommended that Management:

- a. Recover the full amount of P500 million paid to COCOLIFE;
 - b. Invest idle funds in a government facility which yields higher returns but less risky by properly evaluating/conducting study on options on where to invest idle funds taking into account not only the income that will be earned but also the costs to be incurred with the proper approval of the Board; and
 - c. Consider creating an Investment Group/Committee that will handle the fiduciary responsibilities of CAAP.
2. The payment of rentals and real property taxes for alleged leased properties of Philippine Airlines (PAL) in Bacolod City and Ozamis City for the period 1992 to 2018 amounting to P157.625 million (gross of tax) was inadequately supported contrary to Sec. 4(6) of PD 1445. There was no lease contract and the alleged prior years obligations are payables that were not recorded in the books of CAAP or disclosed in the Notes to its financial statements, thus raising doubts as to the validity of PAL's claim.

We recommended that Management:

- a. Coordinate with PAL for the submission of the duly approved lease contract and other documents to support the alleged obligation for rental fees from 1992 to 2018;
 - b. Require the refund of the amount paid to PAL, if the prior years' obligation could not be substantiated; and
 - c. Henceforth, ensure that all rentals are covered by valid and binding lease contracts, containing the terms and conditions such as, but not limited to, the duration of the lease, the rental rate, and rights and obligations of both parties.
3. Interest charges for late remittances of various airline companies amounting to P3.281 million remained unbilled and unpaid in the Head Office (HO) and Area Center (AC) II as of December 31, 2018 thereby depriving CAAP of additional funds that could have been used for its operations.

We recommended and Management agreed to instruct the Revenue Section to bill and collect from the concerned airlines the total amount of P3,266,836 and P14,284 for HO and AC II, respectively, representing interest charges for CYs 2017 and 2018 due to delayed remittances.

4. The recorded Air Navigational Charges (ANC) for CY 2018 was understated by P17.010 million due to under-billings to various airline carriers which is not in accordance to the provisions of Philippine Accounting Standards 18.

We recommended and Management agreed to instruct the Billing Section to:

- a. Expedite the preparation and sending out of billing statements to the concerned airline carriers;
- b. Prepare a complete billing flight data report to account all the flights reported in the Flight Statistics Report; and
- c. Review the billing flight data report and monitor flights regularly to ensure that all flights are being billed.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

| Particulars | Suspensions | Disallowances | Charges |
|---------------------|--------------------|----------------------|----------------|
| CAAP - Head Office | 30,373,276 | 226,126,668 | 30,913 |
| CAAP - Area Centers | 24,752,413 | 376,432,891 | 0 |
| | 55,125,689 | 602,559,559 | 30,913 |

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of 88 prior year's audit recommendations, 48 were fully implemented, 27 were partially implemented and 13 were not implemented by management. Details are presented in Part III of this Report.