

## 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.

The Management implemented a new Airport Clustering Scheme in 2018 that covered 80 airports and 7 facilities which were grouped into four (4) Area Clusters - Laoag Area Center, Iloilo Area Center, Tacloban Area Center and Davao Area Center.

CAAP has a total of 6,978 personnel composed of 3,014 regular employees, 3,842 employees under the Job Order contract and 122 consultants and has a Corporate Operating Budget amounting to P10.246 billion for CY 2019.

### FINANCIAL HIGHLIGHTS

#### Comparative Financial Position

	2019	2018	Increase (Decrease)
Assets	70,066,578,184	70,182,779,932	(116,201,748)
Liabilities	4,181,243,602	3,099,650,636	1,081,592,966
Equity	65,885,334,582	67,083,129,296	(1,197,794,714)

#### Comparative Results of Operations

	2019	2018	Increase (Decrease)
Income	10,537,902,716	10,110,534,836	427,367,880
Expenses	8,251,948,610	7,714,034,489	537,914,121
Net Income	2,285,954,106	2,396,500,347	(110,546,241)

## **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, 2019 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, 2019 and 2018. Also, we conducted our audits 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 2019 and 2018 because the qualitative characteristic of verifiability and faithful representation of the following accounts could not be ascertained which is not in accordance with Philippine Accounting Standard (PAS) 1 and the Conceptual Framework for Financial Reporting:

- a) Property and Equipment (PE) account amounting to P79.513 billion due to non-reconciliation of the variance amounting to P33.752 billion between the balance per General Ledger (GL) and the balance per inventory report/property records; completed infrastructure projects still recorded in Construction in Progress (CIP) accounts, instead of the proper PE account, thus understating Depreciation Expenses and Accumulated Depreciation accounts by P44.506 million and P138.654 million respectively, and overstating PE and Retained Earnings accounts by P138.654 million and P94.148 million, respectively; and non-derecognition of unserviceable properties totaling P99.897 million.
- b) Accounts Receivable (AR) account in the total amount of P4.770 billion due to the non-reconciliation of the variance of P1.293 billion between the GL balances and subsidiary ledgers; erroneous recording of advance payments from various airlines totaling P169.414 million as credit in the AR account instead of recording Other Unearned Revenue/Income account; and erroneous recording of income/receivables prior to the satisfaction of the CAAP's performance obligation, thus overstating Other Receivables and Miscellaneous Income accounts by P42.424 million.

## **SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

For the above observations, which caused the issuance of a qualified opinion, we recommended that Management:

On the variance amounting to P33.752 billion between the balance per General Ledger (GL) and the inventory records and for the non-derecognition of unserviceable properties totaling P99.897 million, to instruct:

- a. The Supply Officer and the Chief Accountant to reconcile the variance between the accounting and inventory records;
- b. The Accounting Division in CAAP-HO and ACs IV, V, VI, VII and IX to maintain the Property, Plant and Equipment Ledger Cards which should be reconciled with the Property Cards maintained by the Supply Division, both prepared in prescribed form;
- c. The Supply Officer of ACs VII and XII to make representation with Department of Transportation and CAAP-HO to secure the necessary documents related to the unrecorded transfer/donation of properties and the Accounting Division of ACs II, VII and XII to draw the necessary adjusting entries to record the assets in the books of accounts; and
- d. The Supply Officer of CAAP-HO, AC III and XII to report all the unserviceable properties in the Inventory and Inspection Report of Unserviceable Property to prepare such properties for the disposal. Likewise, direct the Accounting Division to draw the necessary adjusting entries to derecognize the unserviceable properties from the books of accounts.

On completed infrastructure projects still recorded in Construction in Progress (CIP) accounts, direct the Chief Accountant to:

- a. Prepare the necessary adjusting entries for the reclassification of the completed projects from CIP-Infrastructure Assets and Buildings and Other Structures accounts to appropriate Property and Equipment (PE) and Due from Regional Offices accounts;
- b. Recognize and record the necessary adjusting entries to correct the Depreciation Expense, Accumulated Depreciation and Retained Earnings accounts;
- c. Timely review the processing of Acceptance Report for the completed projects; and
- d. Obtain the necessary documents to support the transaction.

On Accounts Receivable account, to instruct the Chief Accountant to:

- a. Issue demand letters to debtors with past due accounts;
- b. Request for write-off of dormant balances in the Accounts Receivable account;
- c. Conduct an in-depth examination of the variances between the GL and the SL and prepare the necessary adjusting entries, if warranted;
- d. Analyze the abnormal/ negative balances in the account and prepare the necessary journal entry to correct the misstatement; and

- e. Coordinate with the debtors and reconcile the variances between accounting records and confirmation replies.

On the erroneous recording of income/receivables, to instruct the Chief Accountant to:

- a. Strictly abide by the guidelines set under Philippine Financial Reporting Standard 15 when recognizing income from issuance of aircraft/airmen certificates;
- b. Coordinate with the Flight Standards Inspectorate Service to create a formal and documented process on the recording of income arising from requests for inspection/certification from airmen/airline. This is to ensure that necessary documents at the time of fulfilment of the performance obligation of CAAP are duly and timely submitted to the Accounting Division for recording purposes. The Internal Audit Service shall review the process to ensure that controls are in place and that it is compliant with existing regulations;
- c. Record cash received from operators as Other Unearned Revenue/ Income until such time CAAP fulfills its performance obligation, which is to conduct the necessary inspection; and
- d. Reconcile records to determine the exact amount of overstatement in the Miscellaneous Income and Other Receivables accounts and prepare the necessary adjusting entry to retrospectively effect PFRS 15 on the outstanding balance recorded under the Other Receivables account.

The other significant observations and recommendations are as follows:

1. The existence and accuracy of the Other Supplies and Materials Inventory (OSMI) account with a balance of P63.994 million as of December 31, 2019, is unreliable due to (a) non-existing inventories, (b) unrecorded inventory issuances, and (c) misclassification of inventory accounts.

We recommended that Management:

- a. Direct the Chief Accountant and the Chief, Supply Division to conduct a thorough analysis and reconciliation of accounting and property records; and
  - b. Direct the Chief Accountant to prepare the necessary adjusting entries to record unrecognized issuances and to correct the misclassification noted in the account.
2. Inconsistent application of tax base in computing Output Tax for financial reporting purposes resulted in understatement of Output Tax and overstatement of revenues in the financial statements of AC VI amounting to P27.505 million, contrary to Paragraph 15 of PAS 1 on fair presentation of financial statements.

We recommended that the Accountant rectify the error, make the necessary adjustments/disclosures and ensure compliance to Par. 15 of PAS 1 to fairly present the affected accounts in the financial statements.

3. The balance of the Due from National Government Agencies (NGAs) account as compared with the statement of account from the Procurement Service of the Department of Budget and Management (PS-DBM) showed a variance amounting to P11.548 million due to: a) unrecorded delivery of a motor vehicle; b) erroneous recordings in the books; and c) the absence of regular and periodic monitoring of the account thereby casting doubt on the reliability and accuracy of the balance of the account.

We recommended that Management:

- a. Direct the Supply Officer to follow-up with the PS-DBM for the submission of the necessary delivery receipt and for the Chief Accountant to make the necessary adjusting entry to record the receipt of the motor vehicles along with the related accumulated depreciation;
- b. Coordinate with the PS-DBM to reconcile the variance amounting to P11.548 million, and make the necessary adjusting entry, if warranted; and
- c. Establish a clear and documented process on the regular and periodic verification, analysis, and validation of fund transfers.

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

Of the P206.892 million audit suspensions, P157.626 million pertains to 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. On the other hand, out of P1.105 billion audit disallowances, P500 million was issued for the unauthorized payment to United Coconut Planters Life Assurance Corporation (COCOLIFE).

<b>Particulars</b>	<b>Suspensions</b>	<b>Disallowances</b>	<b>Charges</b>
CAAP - Head Office	187,664,906	728,668,186	30,913
CAAP - Area Centers	19,226,917	376,075,232	0
	<b>206,891,823</b>	<b>1,104,743,418</b>	<b>30,913</b>

#### **STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

Out of 74 prior year's audit recommendations, 27 were fully implemented, 15 were partially implemented and 32 were not implemented by Management. Details are presented in Part III of this Report.