



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

July 30, 2021

CAPTAIN JIM C. SYDIONGCO

Director General
Civil Aviation Authority of the Philippines
Old Mia Road, Pasay City

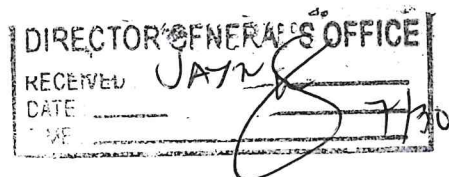
Sir:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of audit of the accounts and transactions of Civil Aviation Authority of the Philippines (CAAP) for the years ended December 31, 2020 and 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Year's Audit Recommendations.

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of CAAP for the years 2020 and 2019 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) amounting to P80.337 billion due to non-conduct of physical count and/or non-submission of report on the physical count of properties costing P28.648 billion; non-reconciliation of the variance amounting to P5.320 billion between the balance per General Ledger (GL) and the balance per inventory report/property records; and completed infrastructure projects still recorded in Construction in Progress (CIP) accounts, instead of the proper PE account, thus understating the Depreciation Expenses and Accumulated Depreciation accounts by P43.955 million and P116.731 million, respectively, and overstating the PE and Retained Earnings account by P116.731 million and P72.776 million, respectively.
- b. Accounts Receivable (AR) account in the total amount of P4.700 billion due to the non-reconciliation of the variance of P1.688 billion between the GL balances and Subsidiary Ledgers (SL).



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

On the non-conduct of physical count and/or non-submission of report on the physical count of properties casting doubt on the verifiability of PE costing P28.648 billion, and for the variance amounting to P5.320 billion between the balance per GL and the balance per inventory report/property records, to instruct:

- a. The respective Supply Divisions/inventory Committees to conduct a complete physical count of PE and submit to the Auditor, the Report on Physical Count of Property, Plant and Equipment pursuant to COA Circular No. 80-124 dated January 18, 1980. In conducting the physical count, the provisions of COA Circular 2020-006 for the one time cleansing of PE account balances should be considered; and
- b. The Accounting Division and Supply Division of CAAP-Head Office (HO) and Area Center (AC) IV, to reconcile their receipts and issuances of property/ies, determine the cause of the variances, and effect the proper adjustments/corrections.

On completed infrastructure projects still recorded in CIP accounts, direct CAAP-HO Chief Accountant to prepare the adjusting entries for the reclassification of the 24 completed projects amounting to P504.928 million, including the provision for depreciation expense and other affected accounts.

On the non-reconciliation of the variance of P1.688 billion between the GL balances and SL of the AR account, direct the Chief Accountant to:

- a. Analyze the variances between the GL and the SL balances and prepare the necessary adjusting entries; and
- b. Require client's submission of Remittance Advice for every payment made via telegraphic/bank transfer and compel them to specify the corresponding reference billing statements that have been paid/settled.

The other significant observations and recommendations that need immediate action are as follows:

1. The balance of Accounts Receivable amounting to P4.700 billion is unreliable due to: a) existence of past due accounts aged more than one year totaling P4.484 billion; b) unbilled Air Navigation Charges (ANCs) for transient/non-scheduled flights amounting to P20.184 million; c) discrepancies and over/under billing of ANCs for scheduled flights with net overstatement of P19.939 million; d) variance of P138.062 million between the SL balances and the amount confirmed by the 11 airline companies; e) unsupported prior years' adjustment amounting to P4.056 million; and f) negative balance of P1.953 million due to erroneous recording of advance/overpayments.

We recommended Management to instruct:

a. The Chief Accountant and/or AC Accountants:

- i. To send demand letters and/or Statement of Accounts (SOA) to all the clients with unpaid balances; and thereafter, initiate the regular issuance of SOA at least every quarter, in addition to the monthly billing statements for periodic reconciliation of records;
- ii. To continue the reconciliation/documentation of the P1.323 billion Philippine Airlines (PAL) accounts to facilitate the filing of the request for condonation should Management pursue its request;
- iii. To reconcile the variances between accounting records and confirmation replies and coordinate with both the client's current and previous local ground handlers/airline operators;
- iv. To regularly update client's SL and indicate the latest and specific airline legal addresses and/or the local operator's/handler's contact information;

b. The Flight Standards Inspectorate Service (FSIS):

- i. To submit to the Accounting Division/Billing Section the necessary data to identify the respective operators/ground handlers of the airline companies from the list of unbilled flights to which the Operational Flight Permits (OFPs) for CYs 2019 and 2020 have been duly issued;
- ii. To regularly submit a monthly summary report to serve as additional reference in the preparation of billing statements for the current and succeeding year's issuance of OFPs;

c. The Accounting Division and/or Billing Section:

- i. To immediately act on the data to be provided by the FSIS; expedite the preparation and sending out of the billing statements to the concerned airline companies for the unbilled flights amounting to P20.184 million;
- ii. To prepare the necessary adjusting entries for the discrepancies and over/under billings of ANCs with net overstatement of P19.939 million;
- iii. To assign additional personnel to tediously review and recheck the accuracy of data in the billing statements in order to avoid the recurrence of errors;

d. The AC Accountant of AC V to locate/trace the Journal Entry Voucher/s and the supporting documents on the adjustment/deduction made from the AR

amounting to P4.056 million otherwise, restore the said amount to AR, if the adjustment cannot be documented; and

- e. The AC Accountants of ACs V & VI to analyze the abnormal/negative balances and prepare the appropriate adjusting entries.
2. As of December 31, 2020, CAAP barely completed 16 out of the 86 airport projects downloaded by the DOTr from CY 2016 to CY 2018, implying the Authority's poor performance in the implementation of the Projects. The delayed completion of projects deprived the public of the prompt use or benefit that could have been derived from its timely completion, including loss of income opportunity for CAAP and/or the government. Moreover, timelines of procurement activities prescribed in Annex C of the Revised Implementing Rules and Regulations (RIRR) of RA No. 9184 were not observed.

We recommended Management to strictly adhere to the pertinent provisions of the RIRR of RA No. 9184 in all its procurement activities. Moreover, Management should direct the:

- a. Project Management Division/ Procurement Division /Bids and Awards Committee and/or other concerned offices to effectively monitor the status of the projects, fast track its implementation/completion, and strictly observe the timelines of the procurement activities provided in Annex C of the RIRR;
- b. Project Management Division to facilitate the preparation of the Program of Work, detailed engineering and related documents of the 27 projects still under the pre-procurement stage;
- c. Procurement Division to create a database specifically for downloaded projects for effective monitoring of the projects;
- d. Project Management Division/ Aerodrome Development & Management Service to initiate immediate appropriate action on suspended projects, to cause/facilitate its early resumption or resolution; and
- e. Project Management Division/ Procurement Division to conduct the pre-procurement planning judiciously and strictly adhere to Section 17.6 and Section 20 of the RIRR of RA No. 9184.

We also recommended that Management assess the adequacy and capability of the Authority's present technical personnel in handling/supervising the projects, and if necessary, augment the existing manpower to expedite the procurement and project implementation.

3. Payments to personnel of Service Provider under Institutional Contract of Service (COS) totaling P33.752 million covering payroll for the pay period March 16 to May 31, 2020, during the Enhanced/Modified Enhanced Community Quarantine are not within the purview of Joint Circular No.1 dated March 9, 2020, of Commission on

Audit and Department of Budget and Management, rendering the regularity of the expenses/payment questionable.

We recommended that Management:

- a. Submit justification and/or legal bases, for evaluation of the Audit Team, for the payroll payment with noted deficiencies amounting to P33.752 million relative the services provided by the Institutional COS personnel;
 - b. Require LSERV to submit the original copies of supporting documents for the pay period March 16 – May 31, 2020 to the Audit Team for review; and
 - c. Direct the Accounting Division to ensure that all claims are duly supported with complete documentary requirements prior to processing and payment.
4. The existence of Inventories totaling P116.045 million and the accuracy and reliability of the balance cannot be ascertained due to: a) the variance between accounting and property records amounting to P42.758 million; b) the non-maintenance of Supplies Ledger Cards (SLC) and Stock Cards; and c) various accounting errors and misstatements.

We recommended that Management direct the:

- a. Accounting Division and Supply Division of CAAP-HO and ACs III, V, VIII, and IX to conduct a thorough validation and reconciliation of the property and accounting records to establish the true balance of the inventory accounts;
- b. Accounting Division of CAAP-HO and ACs III, V, VIII, and IX to prepare and maintain SLCs for all inventory items/accounts and regularly coordinate and reconcile with the Supply Division; and
- c. Chief Accountant of the CAAP-HO and the Accountant-in-Charge of ACs VI and VIII to prepare the necessary adjusting entries for the errors and misclassifications in the Medical, Dental and Laboratory Supplies Inventory, Office Supplies Inventory, Accountable Forms Inventory, Fuel, Oil and Lubricants Inventory, and Other Supplies and Materials Inventory accounts.

The audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on July 19, 2021, are presented in detail in Part II of the report.

We respectfully request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


ELSIELIN C. MASANGCAY
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
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The Governance Commission for Government-Owned or Controlled Corporations
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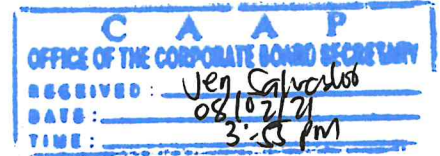


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The audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on July 19, 2021, are presented in detail in Part II of the report.

In a letter of even date, we requested the Authority's Director General to take appropriate action on the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

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