

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 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 seven facilities which were grouped into four Area Clusters - Laoag Area Center, Iloilo Area Center, Tacloban Area Center, and Davao Area Center.

Pursuant to RA No. 11457 or the Charter of the Davao International Airport Authority (DIAA) and RA No. 11054 or the Organic Law for the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM), the Authority is expected to cede and transfer the ownership and operation of several airports in Mindanao Region.

Section 38 of Article XII on Regional Economy and Patrimony of RA No. 11054 states that the Bangsamoro Government shall have the authority to grant regional franchises, licenses, and permits to land sea, and air transportation plying routes in the provinces or cities within the Bangsamoro Autonomous Region, however, the National Government shall regulate the airside operations of all existing airports. CAAP and Bangsamoro Airport Authority (BAA) agree that the transition period is January 2021 to December 31, 2022. The official turnover date of all assets, powers, and functions to the BAA pertaining to the landside operations of the airports shall be on January 1, 2023. The affected airports are as follows:

1. Cotabato Airport
2. Wao Airport
3. Malabang Airport
4. Sanga-Sanga Airport
5. Mapun Airport
6. Jolo Airport

CAAP has a total of 6,855 personnel composed of 2,854 regular employees, 1,328 Contract of Service personnel, and 2,673 outsourced personnel, and has a Corporate Operating Budget amounting to P7.645 billion for CY 2022.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

	2022	2021	Increase (Decrease)
Assets	70,643,083,885	63,295,090,199	7,347,993,686
Liabilities	10,506,842,980	5,043,035,476	5,463,807,504
Equity	60,136,240,905	58,252,054,723	1,884,186,182

Comparative Results of Operations

	2022	2021	Increase (Decrease)
Income	8,846,852,949	5,439,117,063	3,407,735,886
Expenses	6,945,980,567	6,243,894,522	702,086,045
Net Income (Loss)	1,900,872,382	(804,777,459)	2,705,649,841

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, 2022, 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, 2022, and 2021. 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 an adverse opinion on the fairness of the presentation of the financial statements of CAAP for the years 2022 and 2021 because the qualitative characteristics of verifiability and faithful representation of the following accounts were not met/could not be ascertained, which is not in accordance with Philippine Accounting Standards (PAS) 1 on *Presentation of Financial Statements* and the Conceptual Framework for Financial Reporting:

1. The existence, completeness, and valuation of the Property and Equipment (PE) account balance of P55.498 billion could not be ascertained due to errors, non-observance of standard operating procedures, and lapses in internal control.
2. The accuracy and validity of the balances of *Accounts Receivable (AR)* and *Operating Lease Receivable (OLR)* totaling P6.089 billion could not be ascertained due to unreconciled variances, abnormal/negative receivable balances, and inadequacy of impairment/expected credit losses.
3. CAAP accepted the payment for Air Navigational Charges (ANCs) based on its fixed peso equivalent per billing instead of the peso equivalent at the time of payment,

contrary to the provision of PAS 21, resulting in the understatement of *Accounts Receivable* and *Gain on Foreign Exchange* by at least P41.383 million.

4. Non-recognition of exchange differences, contrary to the provision of PAS 21, resulted in the overstatement of *Accounts Receivable* and *Retained Earnings* by at least P21.919 million.
5. Non-translation of dollar-denominated ANCs at the end of the reporting period, contrary to the provision of PAS 21, resulting in the overstatement of *Accounts Receivable* and understatement of Loss on Foreign Exchange by at least P16.757 million.
6. The Inventory Held for Consumption accounts totaling P153.643 million was not faithfully presented in the financial statements due to: a) unreconciled variance between accounting records and the Report on Physical Count of Inventories (RPCI); and b) unrecognized loss on impairment for obsolete accountable forms.

For the above observations, which caused the issuance of an adverse opinion, we recommended the following:

Property and Equipment

1. Variance of P6.670 billion between the balances per books of accounts and the Report on the Physical Count of Property, Plant, and Equipment (RPCPPE)

We reiterated our prior year's recommendations, with modification, that Management direct:

- a. CAAP-HO, ACs II, VI, and AC IX Inventory Committee, in coordination with the Supply and Accounting Divisions, to implement COA Circular No. 2020-006 dated January 31, 2020, to establish the existence of the properties;
- b. CAAP-HO, ACs II, III, VI, VIII, and IX to make the necessary adjustments to reflect the correct balances of the PE accounts in the financial statements;
- c. AC V - Masbate Airport to submit the complete RPCPPE;
- d. AC V - Virac Airport to remove/exclude from the RPCPPE the properties and equipment below the capitalization threshold;

We further recommended that Management direct:

- e. Accountants and responsible officials of CAAP-HO, ACs II, III, VI, VIII, and IX to exhaust all means to determine the cost of the properties;
- f. Accountants and responsible officials of CAAP-HO, ACs II, III, V, VI, VIII, IX, and XI to conduct reconciliation of balances per books of accounts and RPCPPE; and
- g. AC XII Inventory Committee to prepare and submit the results of the physical count of PEs through the RPCPPE.

2. Non-recognition of Service Concession Asset relative to the Caticlan Airport Development Project in the amount of P3.516 billion

We recommended that Management direct the Accounting Division to:

- a. Review both parties' compliance with the Airport Concession Agreement provisions and analyze the related transactions carefully;
 - b. Prepare the necessary accounting entries and submit the Journal Entry Vouchers to the Audit Team; and
 - c. Coordinate with the DOTr and/or the Concessionaire, and require them to submit reports/documents on the construction, operation, and maintenance of the Caticlan Airport, pursuant to Paragraph 15.10.1 of the Concession Agreement, to support the necessary accounting/adjusting entry/ies.
3. Variance amounting to P127.300 million between the balances of the General and Subsidiary Ledgers for PE accounts

We reiterated our prior year's recommendations, with modification, that Management direct:

- a. CAAP-HO, ACs II, and X's Accounting Division (AD) to reconcile the GL and SL balances, update the records, and prepare necessary adjusting entries; and
- b. AC X to enjoin the Accountant and Property Custodian to update the lapsing schedule and RPCPPE once data is complete and make necessary adjustments to reflect the correct amount of reported PEs and related accumulated depreciation for the fair presentation of financial statements.

We further recommended that Management direct AC X:

- c. To ensure that the Appraisal Team is composed of at least one in-house appraiser or its equivalent to be able to properly conduct the physical count and valuation during the implementation of one-time cleansing as prescribed in COA Circular No. 2020-006 dated January 31, 2020; and
- d. To maintain Property, Plant and Equipment Ledger Cards (PPELC) for the Accounting Unit and Property Cards (PC) for the Property and Supply Office/Unit for all existing and newly acquired PEs, which should always have reconciled balances.

Accounts Receivable (AR) and Operating Lease Receivable (OLR)

1. Variance of P349.869 million between General Ledger (GL) and Subsidiary Ledger (SL) balances per Aging Reports of Accounts (AR) Receivable/Operating Lease Receivable (OLR)

We reiterated our prior years' recommendations that Management instruct the Accounting Division/Units in CAAP-HO and all its ACs to conduct an in-depth examination and periodic reconciliation of the variances between the GL and the SL balances, and prepare the necessary adjusting entries, if warranted.

We further recommended that Management instruct the CAAP-HO AD to:

- a. For the Unidentified Remittances under the *Undistributed Collections* account:
 - i. Issue a memorandum enjoining all clients to submit the remittance advice, proof of payment, and reference numbers of billings paid/settled for the timely issuance of official receipts and updating of SLs;
 - ii. Conduct a regular reconciliation of the account and verify/determine other causes of the accumulation of unidentified remittances and take corrective action to prevent the recurrence thereof;
 - b. Conduct a regular (at least quarterly) reconciliation of the *Other Unearned Revenue/Income* account vis-à-vis *Accounts Receivable*. Ascertain the income already earned from advance payments of ANCs and take up the necessary adjusting entry/ies in the books;
 - c. Prepare the JEV to record the unrecorded CY 2022 billings of ANCs amounting to P3.069 million and submit a copy thereof to the Audit Team; and
 - d. Conduct an intensive review on the preparation of the Report of Aging of Receivables and all of its corresponding SLs to ensure the accuracy and correctness of the balances reported in the books of accounts.
2. Existence of negative/abnormal receivable balances in AC VIII totaling P10 million

We recommended that Management direct the CAAP-HO AD/Units in:

- a. CAAP-HO to disseminate to all the Accounting Units in ACs the current practice in recording over/advance payments and unidentified collections to ensure uniformity and consistency in recording;
- b. AC VIII to:
 - i. Conduct an in-depth investigation to find the root cause/s of abnormal/negative balances; and
 - ii. Coordinate with CAAP-HO the preparation of the necessary adjusting entries to reclassify the negative/abnormal balances to their proper account.

3. Inadequate allowance for impairment/expected credit losses based on PFRS 9

We recommended that Management instruct the CAAP-HO AD/Units in CAAP-HO and all Area Centers to:

- a. Adhere to the impairment requirements of PFRS 9 on the recognition and measurement of ECL of *AR/OLR*, and accordingly, incorporate the same in its Accounting Policy; and
- b. Prepare adjusting entries to ensure the fair presentation of the receivable accounts and the related impairment loss accounts in compliance with PFRS 9.

Air Navigational Charges (ANCs)

Acceptance of payments for Air Navigational Charges (ANCs) based on its fixed peso equivalent per billing instead of the peso equivalent at the time of payment

We recommended that Management instruct the CAAP-HO AD:

- a. For CY 2022-2023 billings paid in pesos, determine the difference between the ANCs paid by the clients using the forex rates at the time of billing (as shown in the SOA) vis-a-vis at the time of their payment and issue supplemental SOA to collect the unpaid difference;
- b. Issue billing statements to clients showing only the amount of ANCs in US dollars, and if clients opt to pay in Philippine peso, compute its peso equivalent using the applicable Bankers Association of the Philippines' (BAP) Spot USD/PHP rate at the time of payment; and
- c. Strictly adhere to CAAP Circular 03-11, series of 2011, by accepting payment of operational charges either i.) in USD or ii.) its peso equivalent at the time of payment.

Non-recognition of exchange differences

Non-recognition of exchange differences in collection of receivables from dollar-denominated ANCs

We recommended that Management direct the CAAP-HO AD to:

- a. Record dollar-denominated transactions in accordance with the provisions of PAS 21 and accordingly recognize in the books of accounts the foreign exchange gain or loss arising therefrom;
- b. Further, validate whether the prior year's receivable balances of P21.919 million from the selected clients were due to the unrecognized foreign exchange differences in CYs 2005 - 2008, and prepare the necessary

adjustments in the books of accounts, if warranted. Otherwise, enforce the collection of said amount to the respective clients; and

- c. Review the SLs of other clients and ascertain whether the prior years' outstanding balances per books of accounts were also due to the unrecognized foreign exchange differences. Prepare the necessary adjustments, if warranted.

Non-translation of dollar-denominated ANCs

Non-translation of AR balance from dollar-denominated ANCs at the end of the reporting date

We recommended that Management direct CAAP-HO AD to ensure that foreign currency-denominated transactions be translated on December 31 of each year using the BAP Spot USD/PHP closing rate and recognize the corresponding unrealized foreign exchange gain/loss in the books of accounts, pursuant to the provisions of PAS 21.

Inventory Held for Consumption

1. Variance between accounting records and the RPCI amounting to P102.392 million

We reiterated our prior years' recommendation, with modification, that Management:

- a. In CAAP-HO:

- i. Designate/create a Committee that will, once and for all, conduct a thorough and detailed reconciliation of the property and accounting records to establish the true balance of the inventory accounts, to be headed by the Department Manager III, Finance Department, who will closely monitor the compliance of the concerned offices thereof;
- ii. Direct the Department Manager III, Finance Department, to coordinate with the concerned offices and devise a policy on finally settling and recording prior and current years' fuel consumption in the books of accounts and ensure that future issuances are promptly recorded thereafter;
- iii. Instruct the Supply Division to ensure that all issuances are supported with complete and properly-accomplished RISs, duly reported in the RSMI submitted to the Accounting Division;
- iv. Direct the Department Manager III, Finance Department, to instruct the Accounting Division to (1) prepare and maintain SLCs for all inventory accounts to be regularly reconciled with the SC maintained by the Supply Division, and (2) conduct verification as to the completeness and accuracy of the RSMI submitted before recording in the books of accounts, and monitor its compliance thereof.

- b. In AC V:
 - i. Direct the Inventory Committee to conduct a complete count of the Authority's inventories and prepare and submit a complete RPCI;
 - ii. Instruct the Accounting In-Charge to maintain complete and updated Supplies Ledger Cards;
 - iii. Require the Supply Officer and Accounting In-Charge to reconcile their records and prepare the necessary adjusting entry, if any;
- c. In AC VI:
 - i. Direct the Inventory Committee to conduct a rigid physical count of inventories in each airport under AC VI jurisdiction;
 - ii. Direct the accountant and the supply officers to reconcile the inventory account balances in the GL and RPCI; and
- d. In AC XII, to stop the practice of recording purchases of supplies as outright expenses and henceforth, record the purchase of supplies and materials in its appropriate inventory accounts and recognize the corresponding issuances as an expense based on the RSMI prepared by the Supply Unit.

2. Unrecognized loss on impairment for obsolete accountable forms

We reiterated our prior years' recommendations that Management direct the Accounting Division and Supply Division in CAAP-HO to:

- a. Account for all obsolete accountable forms in the custody of CAAP-HO and Area Centers;
- b. To recognize an impairment loss for the obsolete accountable forms, as necessary; and
- c. Ensure that the disposal of the obsolete accountable forms is in accordance with applicable laws, rules, and regulations, and record the disposal of inventory as necessary.

OTHER SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

- 1. CAAP granted financial assistance to 16 airline operators amounting to P52.875 million over the six month-period explicitly provided under Section 4 (gg) (2) of Republic Act No. 11494 and Memorandum Circular No. 32-2020.

We recommended that Management:

- a. Coordinate with the 16 beneficiaries and arrange for the return of the excess grant they received;

- b. Re-evaluate the request of other Critically-Impacted Businesses to avail of the assistance program but were not granted and determine whether they are qualified for the program; and
 - c. Coordinate with DOTr and request approval for the reallocation/distribution of P52.875 million to other qualified beneficiaries, if any, in accordance with the provisions of applicable laws, rules, and regulations. Otherwise, process the return of the excess financial assistance to DOTr.
- 2. The payment for Flying Pay to CAAP personnel amounting to P15.617 million was not in accordance with Section 30 of Republic Act No. 776 and Section 315 (c) of the Government Accounting and Auditing Manual, Volume I, hence, an irregular expenditure.

We recommended that Management:

- a. Stop the payment of Flying Pay to officers and employees who traveled by plane and whose purposes are unrelated to aircraft operations and aerial missions; and
 - b. Submit an explanation/justification to the Audit Team why these payments should not be disallowed in the audit.
- 3. The accuracy and regularity of payments to the service provider of Institutional Contract of Service (ICOS) personnel covering March 2020 to December 31, 2022, totaling P2.376 billion, were doubtful due to the non-validation of the claims before payment.

We recommended that Management to:

- a. Direct the Chiefs of the Accounting Division, the HRMD, along with other key offices of CAAP to formulate a documented policy on the processing of all claims of the service provider. Ensure that controls are embedded in the process to ensure all claims are accurate, 100 per cent validated, reviewed, approved, and monitored. The policy must also include, among others, the duties and responsibilities of each office/personnel involved, the procedures to be done, the timelines, and documentary requirements.
 - b. Require the Accountant to:
 - i. Submit an explanation to the Director General as to why 100 per cent validation was not conducted on the subject payments and commit, moving forward, that they will review the processes of the Accounting Division and exercise prudence in the handling of government funds by ensuring that all claims against the Authority are first thoroughly validated prior to payment;
 - ii. Orient its personnel handling the validation to ensure that they are well aware and knowledgeable on the payment/transaction they are validating.

- c. Instruct the Chief, HRMD to:
 - i. Ensure the timely updating of its master list and attach the same to the disbursement vouchers corresponding to the period billed; and
 - ii. Only certify that the service provider has satisfactorily rendered services after obtaining sufficient documented evidence to support such certification from Area Centers.
- d. Consider the decentralization of processing of payments to the service provider to manage better the volume of transactions that need to be validated.

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

Of the P1.259 billion audit disallowances, P500 million was issued for the unauthorized payment to United Coconut Planters Life Assurance Corporation (COCOLIFE).

Particulars	Suspensions	Disallowances	Charges
CAAP - Head Office	29,929,062	886,534,654	30,913
CAAP - Area Centers	8,880,625	372,773,484	0
	38,809,687	1,259,308,138	30,913

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of 200 prior year's audit recommendations, 109 were implemented, and 91 were not implemented by Management. Details are presented in Part III of this Report.