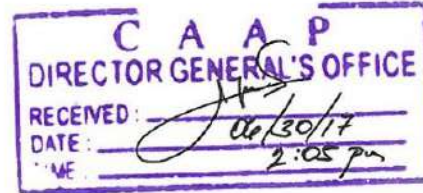




Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City

June 29, 2017

**CAPTAIN JIM C. SYDIONGCO**  
Director General  
Civil Aviation Authority of the Philippines  
Old MIAA Road, Pasay City, Metro Manila



**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 the Annual Audit Report (AAR) on the results of the audit of the accounts and transactions of the Civil Aviation Authority of the Philippines (CAAP) for the year ended December 31, 2016.

We rendered an adverse opinion on the fairness of presentation of CAAP's financial statements due to the following:

1. 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.
2. 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.

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

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 recommended 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.

The observations and recommended courses of action, which we have discussed with the concerned Management officials and staff during the exit conference conducted on June 9, 2017, are discussed in detail in Part II of the AAR.

We request that appropriate actions be taken on the observations and recommendations contained in the report and that we be informed on the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days from 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:

  
**LEILA S. PARAS**  
Director IV

**Copy furnished:**

The President of the Philippines  
The Vice President  
The Speaker of the House of Representatives  
The Chairperson – Senate Finance Committee  
The Chairperson – Senate Appropriations Committee  
The Secretary of Budget and Management  
The Governance Commission for Government-Owned or Controlled Corporations  
The Presidential Management Staff, Office of the President  
The UP Law Center  
The National Library



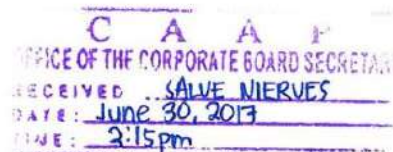


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The observations and recommended courses of action, which we have discussed with the concerned Management officials and staff during the exit conference conducted on June 9, 2017, are discussed in detail in Part II of the AAR.

In a letter of even date, we requested the Director General to implement 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.

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**LEILA S. PARAS**  
Director IV

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