

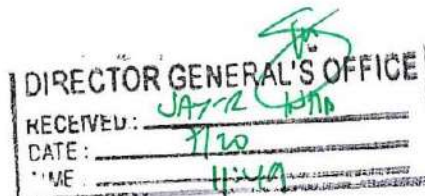


REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

July 19, 2018

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 the audit of the accounts and transactions of Civil Aviation Authority of the Philippines (CAAP) for the year ended December 31, 2017.

We rendered a qualified opinion on the fairness of presentation of CAAP's financial statements due to the non-reconciliation of the net variance of P105.066 billion as of December 31, 2017 between the balance per books and the balance per inventory report/property records of the property and equipment account, except for land and buildings amounting to P49.312 billion that are supported with Transfer Certificates of Title and are used in CAAP's operations, and the non-reconciliation of the discrepancy of P100.696 million of the balances between the general ledger and subsidiary ledgers of the accounts receivable account, that cast doubt on the reliability of the recorded amounts as of December 31, 2017 and 2016, respectively, of the following: property and equipment account of P108.314 billion and P84.829 billion and accounts receivable account of P3.883 billion and P9.316 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 other significant observations and recommendations that need immediate action are as follows:

1. Of the total Advances to Officers and Employees account balance of P12.569 million as of year-end, P11.234 million or 89.38 per cent which are due and demandable were not liquidated as of year-end, contrary to the provisions of COA Circular No. 96-004; Executive Order (EO) No. 248, as amended by EO 298; and Section 89 of PD 1445.

We recommended and Management agreed to:

- a. Revisit its practices in the grant, utilization and liquidation of cash advances (CAs) and henceforth stop the practice of granting additional CAs to accountable officers and employees unless their previous CAs have been fully accounted for/liquidated.

- b. Instruct the Chief Accountant to strictly implement Authority Order No. 266-17 dated November 9, 2017 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 Section 89 of PD 1445.
2. The Authority could have earned an additional P45.847 million in total revenues for CYs 2016 and 2017 had the Authority based the computation of the Air Navigational Charges (ANCs) on CAAP Circular No. 03-11, Series of 2011 dated April 11, 2011.

We recommended and Management agreed to instruct the Billing Section of the Accounting Division to:

- a. Send the corresponding supplemental billing to the concerned Airline Carriers (ArCs) for the remittances of deficiencies in the billing statement previously issued; and
 - b. Henceforth, use the actual distance flown, correct weight factors and all pertinent provisions in CAAP Circular No. 03-11 dated April 11, 2011, subject to the distance cap provided in Board Resolution No. 2013-003 dated January 18, 2013.
3. Delay in the preparation and sending out billing statements caused by the breakdown of the Billing and Collection Information System (BACIS) since year 2011 resulted in non-accrual of income which is not in accord with Paragraph 28 of PAS 1 and Paragraph 4.47 and 4.49 of the Conceptual Framework for Financial Reporting.

We recommended Management to:

- a. Hasten the implementation of our previous year's recommendation which is to adopt an effective billing and collection system that includes full automation of billing data and integrates the source units (ANS and ACs), the Accounting Division (assessment and preparation of billing statements) and the Administrative Section (delivery) to ensure accurate assessment, prompt issuance of billing statements and timely and correct recognition of revenues;
 - b. Adjust the Income from communication facilities and prior year adjustments – Retained Earnings accordingly; and
 - c. Impose the interest of one per cent per month or a fraction thereof, compounded monthly on the defaulting ArCs for their failure to settle their bills on due date pursuant to the Terms of Payment in the Billing Statements.
4. Deficiencies were noted on the Integration of the DPSC at the Point of Sale of airline tickets under CAAP Memorandum Circular (MC) No. 022-17, series of 2017.
 - 4.1 The Circular does not specifically define who are referred to in the statement “other authorized by law and the Office of the President”.
 - 4.2 The remittances of the DPSCs are not made daily or within the next banking day, net of service charge and do not include collections for unflown and cancelled flights.

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- 4.3 The Service Fee (SF) was offset from the DPSC collections, contrary to Philippine Accounting Standards (PAS) 1.
- 4.4 Submission of documents, considered as integral part of the Remittance Report of ArCs, are to be done by the ArCs only upon written request from CAAP and/or COA.
- 4.5 MC No. 022-17, series of 2017 does not specify the "acceptable exemption documents" that may be presented for claiming a refund.
- 4.6 Comparison of the total number of paying passengers and the validated number of outgoing passengers per AC disclosed under remittance of DPSC by the ArCs totaling P6.984 million and non-imposition of the 18 per cent per annum penalty on the same amounting to P0.265 million.

We recommended that Management instruct the Legal Service Division to revisit/enhance/amend the policy guidelines on the integration of DPSC to include the following:

- a. Specifically identify who are those mentioned as "locally-recognized exempted passengers";
- b. Make arrangements with the ArCs to cause the full deposit of all DPSC (flown, unflown and cancelled flights) collected by them on a daily basis or not later than the next banking day to a bank account to be opened by the Authority with an Authorized Government Depository Bank (AGDB) for the purpose;
- c. Remittance of the DPSCs at gross amount and submission by the ArCs of the corresponding statement of account for the service fee to ensure proper approval of payment of expense;
- d. Submission of the Flight Manifest and the Flight Summary without the need of a written request and make these documents as mandatory and integral parts of the Remittance Report and Details of Remittance; and
- e. Specify the "acceptable exemption documents" that may be presented to CAAP for claiming a refund and ensure that these claims are supported with complete documentation.

Moreover, instruct the Chief Accountant to validate the number of passengers in the remittance reports with the number of passengers who have flown, unflown and cancelled flights and compute the 18 per cent penalty per annum, if applicable, and cause the collection of the under remittance of DPSC and penalty thereon in the amounts of P6,983,705 and P264,884, respectively.

- 5. Poor procurement planning for various infrastructure projects and equipment and repairs of venues in the HO and other ACs resulted in unutilized/idle/unmaintained assets and

may further result in the non-attainment of the objectives/commitment to its stakeholders and wastage of government funds and resources.

5.1 The objectives of the construction of the Gender and Development (GAD) Training Center and Communal Toilet amounting to P10.399 million and P2.454 million, respectively, may not be fully achieved due to the inappropriateness of its design, structure and location.

We recommended that Management:

- a. Judiciously plan and evaluate future project proposals to ensure that the project would be beneficial to CAAP and other government agencies;
- b. Expedite the purchase of appropriate furniture, fixtures and equipment for the GAD Training Center that are fitting to its design and structure;
- c. Pursue the rehabilitation of the old staff house to accommodate the participants to GAD trainings and other activities of CAAP;
- d. Comply with the required detailed engineering activities for every infrastructure project included in the Annual Procurement Plan;
- e. Inform immediately the contractor of the defects discovered and require him to undertake repair or forfeit the performance security, when applicable; and
- f. Assign an employee to properly maintain the property.

5.2 The amount of P13.370 million was spent for the purchase of several equipment in various ACs that remain idle/unused and the repair of infrastructure that are unnecessary.

We recommended and Management agreed to the following:

- a. The Planning and Design Section to conduct actual inspection and evaluation of the project site before preparing the Design Plans of a project. The detailed engineering investigation, surveys and design must be sufficiently carried out taking into consideration all the scope of work needed so that the purpose and benefits for which a project is constructed could be attained at the maximum level;
- b. Require the contractor in writing to correct/repair the defects discovered to avoid issuance of Notices of Disallowances (NDs); and
- c. Include in the Project Procurement Management Plan only items that are needed to avoid the procurement of unnecessary items of equipment.

Moreover, Management should find measures to bring the equipment to good running condition and a permanent solution to address the problem of recurring holes in the runway.

The other audit observations, together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 6, 2018 are presented in detail in Part II of the AAR.

In a letter of even date, we requested the Authority's Director General to take appropriate actions 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.

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
The Chairperson- Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission of 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 BOARD OF DIRECTORS

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

Jen Salvador
7/20/18
11:50 AM

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- b. Instruct the Chief Accountant to strictly implement Authority Order No. 266-17 dated November 9, 2017 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 Section 89 of PD 1445.
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