



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

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

July 30, 2019

THE BOARD OF DIRECTORS
Civil Aviation Authority of the Philippines
Old Mia Road, Pasay City



Gentlemen/Mesdames:

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 years ended December 31, 2018 and 2017.

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

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of CAAP for the years 2018 and 2017 due to the non-reconciliation of the variance between the balance per General Ledger (GL) and the balance per inventory report/property records of the Property and Equipment (PE) account amounting to P19.163 billion as of December 31, 2018 and P105.066 billion as of December 31, 2017; the non-reconciliation of the variance of P919.549 million as of December 31, 2018 and P100.696 million as of December 31, 2017 between the GL balances and subsidiary ledgers of the Accounts Receivable (AR) account, as well as the variance between the balance per books of the AR account and the confirmation replies from creditors amounting to P425.352 million in CY 2018, which cast doubt on the reliability of the recorded amounts as of December 31, 2018 and 2017, respectively, of the following: Property and Equipment account of P78.455 billion and P77.722 billion, and Accounts Receivable account of P4.480 billion and P4.068 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 faithful representation of the Accounts Payable (AP) account was not achieved due to the existence of unsubstantiated accruals in the AP account amounting to P156.823 million consisting of Construction in Progress (CIP) amounting to P148.417 million and expenses of P8.406 million, thus overstating the AP account by P156.823 million as of December 31, 2018. Expenses for CY 2018 is likewise overstated by P8.406 million. The Conceptual Framework for Financial Reporting states that one of the elements directly related to financial position is the liability. A liability is defined as a present obligation of

the entity arising from past events the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. There is no proof that the Authority has obligations amounting to P156.823 million as the AP was supported by mere Budget Utilization Request and Certification of Work Accomplishment issued by the Aerodrome Development and Management Service in the case of the recorded CIP. There were no progress billings from the contractor/suppliers concerned, thus no valid claims.

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

1. Investment in United Coconut Planter's Life Assurance Corporation (COCOLIFE) for a single-pay variable life insurance in the amount of P500 million is without approval by the Board, without in-depth study prior to the investment, and with no adequate criteria for the selection of the insured 10 keymen.

We recommended that Management:

- a. Recover the full amount of P500 million paid to COCOLIFE;
 - b. Invest idle funds in a government facility which yields higher returns but less risky by properly evaluating/conducting study on options on where to invest idle funds taking into account not only the income that will be earned but also the costs to be incurred with the proper approval of the Board; and
 - c. Consider creating an Investment Group/Committee that will handle the fiduciary responsibilities of CAAP.
2. The 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 amounting to P157.625 million (gross of tax) was inadequately supported contrary to Sec. 4(6) of PD 1445. There was no lease contract and the alleged prior years obligations are payables that were not recorded in the books of CAAP or disclosed in the Notes to its financial statements, thus raising doubts as to the validity of PAL's claim.

We recommended that Management:

- a. Coordinate with PAL for the submission of the duly approved lease contract and other documents to support the alleged obligation for rental fees from 1992 to 2018;
 - b. Require the refund of the amount paid to PAL, if the prior years' obligation could not be substantiated; and
 - c. Henceforth, ensure that all rentals are covered by valid and binding lease contracts, containing the terms and conditions such as, but not limited to, the duration of the lease, the rental rate, and rights and obligations of both parties.
3. Interest charges for late remittances of various airline companies amounting to P3.281 million remained unbilled and unpaid in the Head Office (HO) and Area

Center (AC) II as of December 31, 2018 thereby depriving CAAP of additional funds that could have been used for its operations.

We recommended and Management agreed to instruct the Revenue Section to bill and collect from the concerned airlines the total amount of P3,266,836 and P14,284 for HO and AC II, respectively, representing interest charges for CYs 2017 and 2018 due to delayed remittances.

4. The recorded Air Navigational Charges (ANC) for CY 2018 was understated by P17.010 million due to under-billings to various airline carriers which is not in accordance to the provisions of Philippine Accounting Standards 18.

We recommended and Management agreed to instruct the Billing Section to:

- a. Expedite the preparation and sending out of billing statements to the concerned airline carriers;
- b. Prepare a complete billing flight data report to account all the flights reported in the Flight Statistics Report; and
- c. Review the billing flight data report and monitor flights regularly to ensure that all flights are being billed.

The other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on June 7, 2019, are presented in details in Part II of the report.

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



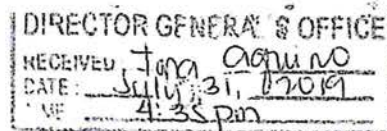
REPUBLIC OF THE PHILIPPINES
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CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

July 30, 2019

CAPTAIN JIM C. SYDIONGCO

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



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Jim C. Sydiongco
July 31, 2019

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The above and other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on June 7, 2019, are presented in detail in Part II of the Report.

We 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

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