

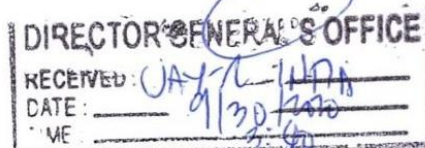


REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

September 29, 2020

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 the Civil Aviation Authority of the Philippines (CAAP) for the years ended December 31, 2019 and 2018.

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 the Authority for the years 2019 and 2018 because the qualitative characteristic of verifiability and faithful representation of the following accounts could not be ascertained:

- a) Property and Equipment (PE) account amounting to P79.513 billion due to non-reconciliation of the variance amounting to P33.752 billion between the balance per General Ledger (GL) and the balance per inventory report/property records; completed infrastructure projects still recorded in Construction in Progress (CIP) accounts, instead of the proper PE account, thus understating Depreciation Expenses and Accumulated Depreciation accounts by P44.506 million and P138.654 million respectively, and overstating PE and Retained Earnings accounts by P138.654 million and P94.148 million, respectively; and non-derecognition of unserviceable properties totaling P99.897 million.
- b) Accounts Receivable (AR) account in the total amount of P4.770 billion due to the non-reconciliation of the variance of P1.293 billion between the GL balances and subsidiary ledgers; erroneous recording of advance payments from various airlines totaling P169.414 million as credit in the AR account instead of recording Other Unearned Revenue/Income account; and erroneous recording of income/receivables prior to the satisfaction of the CAAP's performance obligation, thus overstating Other Receivables and Miscellaneous Income accounts by P42.424 million.

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

On the variance amounting to P33.752 billion between the balance per General Ledger (GL) and the inventory records and for the non-derecognition of unserviceable properties totaling P99.897 million, to instruct:

- a. The Supply Officer and the Chief Accountant to reconcile the variance between the accounting and inventory records;
- b. The Accounting Division in CAAP-Head Office (HO) and Area Centers (ACs) IV, V, VI, VII and IX to maintain the Property, Plant and Equipment Ledger Card which should be reconciled with the Property Cards maintained by the Supply Division, both prepared in prescribed form;
- c. The Supply Officer of ACs VII and XII to make representation with Department of Transportation and CAAP-HO to secure the necessary documents related to the unrecorded transfer/donation of properties and the Accounting Division of ACs II, VII and XII to draw the necessary adjusting entries to record the assets in the books of accounts; and
- d. The Supply Officer of CAAP-HO, AC III and XII to report all the unserviceable properties in the Inspection and Inventory Report of Unserviceable Property to prepare such properties for the disposal. Likewise, direct the Accounting Division to draw the necessary adjusting entries to derecognize the unserviceable properties from the books of accounts.

On completed infrastructure projects still recorded in Construction in Progress (CIP) accounts, direct the Chief Accountant to:

- a. Prepare the necessary adjusting entries for the reclassification of the completed projects from CIP-Infrastructure Assets and Buildings and Other Structures accounts to appropriate PE and Due from Regional Offices accounts;
- b. Recognize and record the necessary adjusting entries to correct the Depreciation Expense, Accumulated Depreciation and Retained Earnings accounts;
- c. Timely review the processing of Acceptance Report for the completed projects; and
- d. Obtain the necessary documents to support the transaction.

On Accounts Receivable account, to instruct the Chief Accountant to:

- a. Issue demand letters to debtors with past due accounts;
- b. Request for write-off of dormant balances in the Accounts Receivable account;

- c. Conduct an in-depth examination of the variances between the GL and the Subsidiary Ledger (SL) and prepare the necessary adjusting entries, if warranted;
- d. Analyze the abnormal/negative balances in the account and prepare the necessary journal entry to correct the misstatement; and
- e. Coordinate with the debtors and reconcile the variances between accounting records and confirmation replies.

On the erroneous recording of income/receivables, to instruct the Chief Accountant to:

- a. Strictly abide by the guidelines set under Philippine Financial Reporting Standard 15 when recognizing income from issuance of aircraft/airmen certificates;
- b. Coordinate with the Flight Standards Inspectorate Service to create a formal and documented process on the recording of income arising from requests for inspection/certification from airmen/airline. This is to ensure that necessary documents at the time of fulfilment of the performance obligation of CAAP are duly and timely submitted to the Accounting Division for recording purposes. The Internal Audit Service shall review the process to ensure that controls are in place and that it is compliant with existing regulations;
- c. Record cash received from operators as Other Unearned Revenue/Income until such time CAAP fulfills its performance obligation, which is to conduct the necessary inspection; and
- d. Reconcile records to determine the exact amount of overstatement in the Miscellaneous Income and Other Receivables accounts and prepare the necessary adjusting entry to retrospectively effect PFRS 15 on the outstanding balance recorded under the Other Receivables account.

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

1. The existence and accuracy of the Other Supplies and Materials Inventory (OSMI) account with a balance of P63.994 million as of December 31, 2019, is unreliable due to (a) non-existing inventories, (b) unrecorded inventory issuances, and (c) misclassification of inventory accounts.

We recommended that Management:

- a. Direct the Chief Accountant and the Chief, Supply Division to conduct a thorough analysis and reconciliation of accounting and property records; and
 - b. Direct the Chief Accountant to prepare the necessary adjusting entries to record unrecognized issuances and to correct the misclassification noted in the account.
2. Inconsistent application of tax base in computing Output Tax for financial reporting purposes resulted in understatement of Output Tax and overstatement of revenues in the financial statements of AC VI amounting to P27.505 million, contrary to Paragraph 15 of Philippine Accounting Standard (PAS) 1 on fair presentation of financial statements.

We recommended that the Accountant rectify the error, make the necessary adjustments/disclosures and ensure compliance to Par. 15 of PAS 1 to fairly present the affected accounts in the financial statements.

3. The balance of the Due from National Government Agencies (NGAs) account as compared with the statement of account from the Procurement Service of the Department of Budget and Management (PS-DBM) showed a variance amounting to P11.548 million due to: a) unrecorded delivery of a motor vehicle; b) erroneous recordings in the books; and c) the absence of regular and periodic monitoring of the account thereby casting doubt on the reliability and accuracy of the balance of the account.

We recommended that Management:

- a. Direct the Supply Officer to follow-up with the PS-DBM for the submission of the necessary delivery receipt and for the Chief Accountant to make the necessary adjusting entry to record the receipt of the motor vehicles along with the related accumulated depreciation;
- b. Coordinate with the PS-DBM to reconcile the variance amounting to P11.548 million, and make the necessary adjusting entry, if warranted; and
- c. Establish a clear and documented process on the regular and periodic verification, analysis, and validation of fund transfers.

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 September 16, 2020, 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:


ELSIE 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 for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

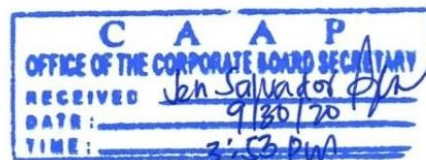


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We recommended that Management:

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- b. Coordinate with the PS-DBM to reconcile the variance amounting to P11.548 million, and make the necessary adjusting entry, if warranted; and
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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 September 16, 2020, 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.

Very truly yours,

COMMISSION ON AUDIT

By:


ELSIELIN C. MASANGCAY
Director IV

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The Speaker of the House of Representatives
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The Secretary of the Department 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