

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. CAAP 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 79 airports, and six 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), CAAP is expected to cede and transfer the ownership and operation of the Francisco Bangoy International Airport (FBIA) to the DIAA. However, as of December 31, 2024, CAAP has yet to transfer the FBIA to the DIAA. Based on CYs 2017 to 2019 Revenues, CAAP is estimated to forego P652.662 million in revenue yearly once the FBIA is transferred to DIAA. Pending the transfer, all income generated and expenses incurred by the FBIA are being recorded in the books of CAAP.

CAAP has a total of 7,079 personnel composed of 2,945 regular employees, 145 Contract of Service personnel, 1,365 Job Order personnel, and 2,624 outsourced personnel, and has a Corporate Operating Budget amounting to P12.494 billion for CY 2024.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

	2024	2023 (As Restated)	Increase/ (Decrease)
Assets	86,413,055,535	82,177,572,331	4,235,483,204
Liabilities	19,679,924,883	20,468,818,519	(788,893,636)
Equity	66,733,130,652	61,708,753,812	5,024,376,840

Comparative Results of Operations

	2024	2023 (As Restated)	Increase/ (Decrease)
Operating Income	15,915,856,962	10,377,994,607	5,537,862,355
Operating Expenses	9,660,020,418	8,926,888,798	733,131,620

	2024	2023 (As Restated)	Increase/ (Decrease)
Income from Operations	6,255,836,544	1,451,105,809	4,804,730,735
Income Tax Expense/(Benefit)	1,434,647,352	406,712,085	1,027,935,267
Assistance and Subsidies	896,558,338	990,735,441	(94,177,103)
Net Income	5,717,747,530	2,035,129,165	3,682,618,365

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, 2024, 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, 2024 and 2023. 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 a qualified opinion on the fairness of the presentation of the financial statements of CAAP for the years 2024 and 2023 because of the following observations, which have material effects on the financial statements:

1. Property and Equipment account with a carrying value amounting to P59.972 billion due to the non-reconciliation of the variance amounting to P7.381 billion and P104.350 million between the balance per General Ledger vis-à-vis the balances per inventory report/property records and the Subsidiary Ledgers, respectively; and the non-recognition of land with an undetermined area and value, located in Pasay City, where the CAAP-Head Office Administrative Compound, Manila Control Tower, CAAP Hangar and Manila Radar are situated.
2. Accounts Receivable and Operating Lease Receivable accounts with carrying value amounting to P3.795 billion and P339.748 million, respectively, due to the inadequate allowance for expected credit loss despite the existence of long-outstanding receivable balances with a carrying value of P1.650 billion; and the non-reconciliation of the variance of P1.132 billion between the balances of the General Ledger and Subsidiary Ledgers.
3. Input Tax account amounting to P403.464 million due to the overstatement in the account by P402.719 million, along with the understatement of the Creditable Input Tax by P206.193 million, resulting from the non-filing with the Bureau of Internal Revenue and non-recognition of creditable input tax between 2020 to 2024.
4. Inventory account amounting to P143.710 million due to the non-reconciliation of the variance of P98.126 million between the balance per General Ledger vis-à-vis the balances per inventory reports/property records; and non-recognition of impairment loss to write-down inventory to its net realizable value, which is not in accordance with PAS 2 on *Inventories*.

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

Property and Equipment

1. Variance of P7.381 billion between the balances per books of accounts and the Report on the Physical Count of Property, Plant, and Equipment
 - a. CAAP Inventory and Reconciliation Committee, in coordination with the Supply and Accounting Divisions of CAAP-HO and ACs II, IV, V, VI, VIII, IX, XI, and XII to ensure adherence to COA Circular No. 2020-006 and CAAP AO No. 206-2023, regarding the One-Time Cleansing of PE account balances of CAAP to identify causes of the variances between the books of accounts and the Report on the Physical Count of Property, Plant, and Equipment balances and to reconcile these variances accordingly;
 - b. Accounting Division/ Offices of CAAP-HO and ACs II, IV, V, VI, VIII, IX, XI, and XII to make the necessary adjustments for appraisals, recognition of Property and Equipment items found at stations, and disposition of non-existing/missing Property and Equipment items, if warranted, to accurately reflect Property and Equipment account balances;
 - c. Supply and Accounting Divisions of CAAP-HO and ACs to strictly maintain updated and accurate Property Cards and Property, Plant, and Equipment Ledger Cards for all Property and Equipment items to ensure proper recording of accountability, movement, and disposition of assets;
 - d. AC VI to issue demand letters to the accountable personnel responsible for non-existing or missing properties and instruct the Accounting Unit to set up receivable accounts for those personnel who were unable to present the Property and Equipment items, if appropriate;
 - e. AC IX to coordinate with CAAP HO to determine the status of, and follow up on, the transfer of vouchers and supporting documents for Property and Equipment received, prioritizing those delivered earlier; and
 - f. CAAP Inventory and Reconciliation Committee, in coordination with the Supply and Accounting Divisions of CAAP-HO and ACs, to:
 - i. Prioritize the timely submission of reconciled Report on the Physical Count of Property, Plant, and Equipment, ensuring inclusion of all required supporting reports, such as the list of Property and Equipment physically found at the station and those identified as missing; and
 - ii. Strengthen internal controls over property management by: conducting regular physical inventories, promptly reconciling records, updating property and ledger cards, properly tagging all Property, Plant, and Equipment items, assigning clear responsibilities and timelines for each activity, and consistently monitoring compliance to ensure timely, accurate, and complete submission of the Report on the Physical Count of Property, Plant, and Equipment.

2. Variance of P104.350 million between General Ledger and Subsidiary Ledgers
 - a. CAAP-HO AD to exert effort to locate the supporting documents of prior years' transactions, reconcile the General Ledger and Subsidiary Ledger balances, and prepare the necessary adjusting entries, if warranted;
 - b. AC X to require the Accountant and Property Custodian to update the lapsing schedule and Report on the Physical Count of Property, Plant, and Equipment once the cleansing is completed and make necessary adjustments to reflect the correct Property and Equipment amounts and related depreciation expenses for the fair presentation of financial statements, with copies of adjustments furnished to COA;
 - c. AC X Accounting Unit and the Property and Supply Office/Unit to maintain Property, Plant, and Equipment Ledger Cards and Property Cards for all existing and newly acquired Property and Equipment, to ensure that the balances of both cards are always reconciled;
 - d. AC X to ensure that all relevant data, including appraisal values and derecognition of items, are updated in the relevant reports during the one-time cleansing of Property and Equipment; and
 - e. CAAP-HO AD to ensure that all adjustments related to AC accounts and completed Department of Transportation projects are accurately recorded in their respective books and duly supported with adequate documentation.
3. The non-recognition of land with an undetermined area and value, located in Pasay City
 - a. Require the Real Estate Titling Task Force, in coordination with the Asset Management Division, Aerodrome Development and Management Service, Supply Division, and Accounting Division, to expedite the validation of unrecorded land by securing the necessary documents (e.g., property transfer documents, appraisal reports, journal entry vouchers, land titles, etc.) and coordinating with the source agencies to support the transfer and recognition of these properties; and
 - b. Direct the Accounting Division to make the necessary adjustments to ensure the accurate recognition and recording of these properties in CAAP's books of accounts, reflecting correct balances of the affected accounts in the financial statements.

*Accounts Receivable and
Operating Lease Receivable*

- a. Comply with the impairment requirements of PFRS 9 in the recognition and measurement of Expected Credit Losses for Accounts Receivable, and accordingly, incorporate these requirements in its Accounting Policy;

- b. Establish concrete plans to facilitate the completion of the detailed review and evaluation of CAAP's receivables portfolio necessary for the calculation of the Expected Credit Loss;
- c. Prepare adjusting entries to ensure the faithful representation of the receivable accounts and the related impairment loss accounts in compliance with PFRS 9;
- d. Accounting Division in CAAP-HO and all ACs to conduct an in-depth examination and periodic reconciliation to identify other possible factors contributing to the variances between the General Ledger and Subsidiary Ledger balances, and prepare the necessary adjusting entries, if warranted; and
- e. Accounting Division in CAAP-HO to:
 - i. Identify the corresponding billing reference numbers for the P799.486 million recorded under the Undistributed Collections account and ensure that these payments are accurately and promptly posted to the appropriate clients' Subsidiary Ledgers;
 - ii. Conduct a regular (at least quarterly) reconciliation of the Other Unearned Revenue/Income account vis-à-vis Accounts Receivable to ascertain the income already earned from advance payments of Air Navigational Charges and record the necessary adjusting entry/ies in the books of accounts;
 - iii. Review the recognized realized foreign exchange gains and losses on the collection of foreign currency-denominated receivables and prepare the necessary adjustment to correct the erroneous entries made; and
 - iv. Submit to the Audit Team the revised Report of Aging of Receivables and the corresponding Subsidiary Ledgers, and effect the necessary corrections to address the identified disparities, mispostings, and erroneous recordings amounting to P17.044 million.

Input Tax

- a. Prepare and maintain a detailed listing or schedule of all input taxes to support the balance of the account and to ensure its proper monitoring;
- b. Reconcile the balance in the Input Tax account with the input tax recorded in the Accounts Payable account and prepare the necessary Journal Entry Voucher to rectify any discrepancies and to reflect the correct balance of the account;
- c. Provide adequate supporting documents to support the reversal of Creditable Input Tax balance for the evaluation of the Audit Team; and

- d. Require the Chief Accountant to immediately file an amended Value-Added Tax return for input taxes not filed within the appropriate period and, henceforth, require end-users to submit invoices to the Accounting Division in a timely manner to ensure all input taxes on purchases are duly captured and appropriately reflected in every Value-Added Tax return.

Inventory Held for Consumption

- a. Direct both the Supply and Accounting Divisions of CAAP-HO, ACs V and XII to prioritize the meticulous and timely maintenance of the Stock Cards, Semi-Expendable Property Cards, Supplies Ledger Cards, and Semi-Expendable Property Ledger Cards. In addition, in CAAP-HO, submit to the Director General a plan of action detailing the personnel who would conduct the updating of their respective control records, along with the frequency and timelines involved in their maintenance to ensure proper monitoring of the corrective action;
- b. Designate an Inventory Committee in AC VI for the physical count of inventories, to conduct the counting of ALL inventories on stock and prepare the Report on the Physical Count of Inventories;
- c. Direct the Inventory Committees in all ACs to:
 - i. Regularly reconcile the result of the physical count with the control records;
 - ii. Ensure the prompt and accurate reporting of shortages and overages for Management to immediately investigate the cause of such shortages/overages and submit a copy of the investigation report to the Audit Team once available;
- d. Instruct the Chief Accountant in CAAP-HO, ACs XI and XII to record inventories in the books of accounts upon delivery and acceptance of goods by CAAP;
- e. Instruct the Chief, Supply Division of CAAP-HO to:
 - i. Immediately submit the Delivery Receipts and Inspection and Acceptance Reports, and other supporting documents to the Accounting Division as soon as available to facilitate the timely recording of deliveries;
 - ii. Conduct a recount of fuel in all tanks maintained by CAAP to verify the Fuel, Oils, and Lubricants Inventory balance, investigate any resulting variances to determine accountability, and furnish this Office a copy of the investigation report;
- f. For CAAP-HO and AC XII to:
 - i. Ensure the accurate and regular preparation and submission of Report of Semi-Expendable Property Issued and Report of Supplies and Materials Issued, supported by duly accomplished

Requisition and Issue Slips and Inventory Custodian Slips for issuances of semi-expendable properties;

- ii. Immediately submit to the Accounting Division the necessary Report of Supplies and Materials Issued/ Report of Semi-Expendable Property Issued to record the P0.502 million inventories already issued to end-users;
- g. Review and revise the Administrative and Finance Service Procedure Manual to include specific timelines for the inspection and acceptance of delivered goods to avoid unnecessary delays;
- h. Develop and implement a comprehensive policy governing the conduct and reporting of physical inventory counts, detailing the responsibilities of the inventory committee, the procedures to be undertaken during the count, and the subsequent reconciliation of records, specifying the reportorial requirements and the standards for documentation;
- i. Establish a clear policy on the proper accounting and treatment of inventory overages and shortages, specifically for fuel identified during physical counts; and
- j. Direct the Chief Accountant to:
 - i. Immediately prepare the necessary adjusting entries to correct the erroneous entries recorded in the books of accounts;
 - ii. Review meticulously the Journal Entry Vouchers to prevent the erroneous recording of transactions; and
 - iii. Recognize impairment losses by writing down inventories to their net realizable value in accordance with PAS 2, once the accuracy of the Report on the Physical Count of Inventories and the Report on the Physical Count of Semi-Expendable Property has been ascertained.

OTHER SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

1. Unutilized project funds amounting to P176.660 million from cancelled and completed projects had not been returned to the Department of Transportation as of December 31, 2024, contrary to Item 4.9 of COA Circular No. 94-013.

We recommended and Management agreed to direct the Accounting Division and Aerodrome Development and Management Service to:

- a. Immediately coordinate with the Department of Transportation to formalize agreements concerning the request of CAAP to retain the unutilized funds for cancelled and completed projects; and

- b. Obtain and maintain complete documents to support any agreements reached with the Department of Transportation on the disposition of such funds and projects.
2. Absence of a provision in CAAP Memorandum Circular No. 022-17 requiring the Air Carriers to remit unrefunded Domestic Passenger Service Charges from Expired/Unused Passenger Tickets and Locally-Recognized Exempted Passengers since the implementation of the Integration of Domestic Passenger Service Charges at the Point of Sale of Airline Tickets in CY 2017 resulted in an undetermined amount of uncollected income for the government

We reiterated our previous years' recommendations that Management amend CAAP MC No. 022-17 to explicitly include enforcement mechanisms that would ensure Air Carriers' remittance to CAAP of the unrefunded Domestic Passenger Service Charges from CY 2017 to the present.

Further, we recommended that Management instruct the Accounting Division to provide clarifications and submit pertinent documents to the Audit Team to support the claim that CAAP employees identified as Locally-Recognized Exempted Passengers per Remittance Reports were considered "deadheading" on such flights and thus, classified as non-paying passengers.

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

Particulars	Suspensions	Disallowances	Charges
CAAP - Head Office	29,929,062	739,781,963	30,913
CAAP - Area Centers	6,591,490	174,466,289	0
	36,520,552	914,248,252	30,913

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 153 prior year's audit recommendations, 65 were implemented, and 88 were not implemented by Management. Details are presented in Part III of this Report.