

EXECUTIVE SUMMARY

A. Introduction

The Civil Aeronautics Board (CAB) was created by virtue of Executive Order (EO) No. 94 dated October 4, 1947. The Board was reorganized on June 20, 1952 with the passage of Republic Act (RA) No. 776 and it became an attached agency to the Department of Transportation and Communications (DOTC), now Department of Transportation (DOTr), in 1987.

The CAB's mandate is to regulate, promote and develop the economic aspect of air transportation in the Philippines. It has the general supervision, jurisdiction and control over air carriers, general sales agents, cargo sales agents and air freight forwarders as well as their property, property rights, equipment, facilities and franchise.

It is governed by a Board composed of the DOTr Secretary as Chairman, Department of Tourism (DOT) Secretary as Vice Chairman and the Director General of the Civil Aviation Authority of the Philippines (CAAP) as member. The Executive Director heads the CAB and is assisted by a Deputy Executive Director and seven Division Chiefs.

As of December 31, 2018, the agency has two Presidential Appointee, 73 permanent employees and 159 Job Order (JO)/ Contract of Service (COS) personnel.

B. Financial Highlights

For CY 2018, the CAB received total appropriations of P131,555,000.00, which is comprised of: (a) Regular Appropriations of P127,899,000.00 as Agency Specific Budget per General Appropriations Act (GAA) of FY 2018; and (b) Automatic Appropriations of P3,656,000.00. During the year, the Agency received a total allotment of P134,189,948.00, with obligations incurred amounting to P134,164,954.22, leaving an unobligated balance of P24,993.78. Details are as follows:

Source of Funds	Appropriations	Allotments	Obligations Incurred	Disbursements	Unobligated Allotments	Unpaid Obligations
A. Current						
I. Agency Specific Budget						
Personal Services	41,909,000.00	43,784,000.00	52,161,615.00	52,161,615.00	(8,377,615.00)	0.00
Maintenance and Other Operating Expenses (MOOE)	76,940,000.00	75,065,000.00	66,687,385.00	66,350,509.74	8,377,615.00	0.00
Capital Outlay	9,050,000.00	9,050,000.00	9,050,000.00	3,399,158.00	0.00	5,650,842.00
Sub-total	127,899,000.00	127,899,000.00	127,899,000.00	121,911,282.74	0.00	5,650,842.00
II. Automatic Appropriation						

Source of Funds	Appropriations	Allotments	Obligations Incurred	Disbursements	Unobligated Allotments	Unpaid Obligations
Retirement and Life Insurance Premiums	3,656,000.00	3,865,258.00	3,840,264.22	3,840,264.22	24,993.78	0.00
III. Special Purpose Fund						
Miscellaneous Personnel Benefits		2,425,690.00	2,425,690.00	2,425,690.00	0.00	0.00
Pension and Gratuity Fund	0.00	0.00	0.00	0.00	0.00	0.00
Sub-total	0.00	2,425,690.00	2,425,690.00	2,425,690.00	0.00	0.00
Total Current	131,555,000.00	134,189,948.00	134,164,954.22	128,177,236.96	24,993.78	5,650,842.00
B. Continuing						
I. Agency Specific Budget						
MOOE	0.00	0.00	0.00	0.00	0.00	0.00
CO	0.00	0.00	0.00	0.00	0.00	0.00
Total Continuing	0.00	0.00	0.00	0.00	0.00	0.00
GRANDTOTAL (A+B)	131,555,000.00	134,189,948.00	134,164,954.22	128,177,236.96	24,993.78	5,650,842.00

The comparative financial position and financial performance of the Agency for CYs 2018 and 2017 are presented below:

Particulars	2018	2017	Increase/ (Decrease)
	(in PhP)		
Financial Position			
Assets	23,424,394.40	22,669,152.62	755,241.78
Liabilities	1,824,565.64	3,613,774.31	(1,789,208.67)
Net Assets/Equity	21,599,828.76	19,055,378.31	2,544,450.45
Financial Performance			
Revenue	104,913,196.48	117,552,037.43	(12,638,840.95)
Current Operating Expenses	135,288,806.92	117,483,248.38	17,805,558.54
Surplus/ (Deficit) from Current Operations	(30,375,610.44)	68,789.05	(30,444,399.49)
Net Financial Assistance/ Subsidy	138,500,612.95	116,832,233.55	21,668,379.40
Surplus/ (Deficit) for the period	108,125,002.51	116,901,022.60	(8,776,020.09)

The significant decrease in the Surplus from Current Operations was due to the decrease in Revenue, particularly: a) Other Service Income from Supervision and Verification Fees by 14.18% and Service Income from Fines and Penalties by 83.57%, and the noted increase in Current Operating Expenses was caused by the rise in Other Professional Services expense for salaries of newly-hired additional JO personnel as Passenger Rights Assistance Officers (PRAOs) to man the complaints and assistance desks in all airports nationwide for the full implementation of the air passenger regulation known as “Air Passengers Bill of Rights (APBR)”.

C. Operational Highlights

The CAB's reported targets and actual accomplishments as of December 31, 2018 measured in terms of its Major Final Outputs (MFOs) are shown below:

Organizational Outcomes/ Performance Indicators	Targets	Actual Accomplishments	Percentage (Accomplishments vs. Targets)
AIR TRANSPORT DEVELOPMENT AND REGULATORY PROGRAM			
Outcome Indicator(s)			
1. % increase in the total operated capacity (seats)	12%	7%	58.33
2. % increase in the number of operated routes (routes operated by scheduled carriers)	7%	18%	257.14
Output Indicator(s)			
1. No. of air agreements/negotiations initiated or acted upon within a year	7	9	128.57
2. % change of application for operating permits acted upon within the prescribed time	5%	28%	560
AIR PASSENGER BILL OF RIGHTS PROGRAM			
Outcome Indicator(s)			
1. % of matters attended by the Passenger Rights Assistance Officer	5%	100%	2,000
2. % change in the number of airline violations	5%	19%	380
Output Indicators			
1. % of complaints resolved within the prescribed time	5%	81%	1,620
2. % of air passenger rights related complaints acted upon within the prescribed time	5%	100%	2,000

D. Scope of Audit

The audit covered the accounts and operations of CAB for the year ended December 31, 2018. The audit was conducted to (a) verify the level of reliance that maybe placed on management's assertions on the financial statements; (b) determine the extent of compliance with applicable laws, rules and regulations; (c) recommend Agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations.

E. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the CAB due to uncertainty on the accuracy of the Property, Plant and Equipment balance amounting to P32.573 million as at December 31, 2018. The Auditor noted that there was an unreconciled difference of P5.870 million between the accounting and property records which Management could not account due to failure to:

a) complete the physical inventory of property, plant, and equipment (PPE) and submit the Report on Physical Count of PPEs (RPCPPEs) on time; and b) maintain updated PPELCs and PCs by the accounting and property offices, respectively. Absence of these required controls does not permit the application of adequate alternative procedures regarding the cost of Property, Plant and Equipment, and could have possible effects on the accuracy of valuation of the PPE accounts. The unaccounted/ unreconciled difference of P5.870 million exceeded the established materiality threshold of P234,243.94 or 1% of the total assets balance of CAB, an asset-driven entity.

An emphasis of matter was drawn in Note No. 13.1.2 of the financial statements, disclosing that the records of the General Sales Agents and Airfreight Forwarders relative to the Other Service Income of CAB are not regularly examined by the Agency, contrary to Sections 13 and 11 of the Economic Regulation (ER) No. 8 as amended by Board Resolution No. 189-84 and ER No. 4, respectively. The opinion rendered was not modified in respect of this matter.

F. Summary of Other Significant Observations and Recommendations

Summarized below are the other significant audit observations and the corresponding recommendations, the details of which are discussed in Part II of this Report:

1. Improperly accounted Property Acknowledgment Receipts (PARs) due to non-compliance of serial numbering and doubtful dates of actual disposal and dropping of PPE items due to unfilled date of disposal in the Certification portion of the Inspection and Inventory Report on Unserviceable Properties (IIRUP) **(Observation No. 2)**

We recommended and Management agreed to direct the Property Section to strictly comply with the instructions provided in Appendices 71 and 74 of GAM, Volume II when accomplishing the PARs and IIRUP as these are necessary tools in keeping complete and accurate PPE records on issuance and disposals.

2. CAB obligated P134.164 million or 99.98% of its total allotments of P134.189 million and disbursed P128.514 million or 95.79% thereof, while P133.451 million or 99.32% of the total received cash allocations of P134.363 million was utilized, indicating substantial compliance with Section 61 of RA No. 10964 or the General Appropriations Act (GAA) of FY 2018 and efficient utilization of its fund releases in CY 2018. **(Observation No. 3)**

We commended Management for efficiently utilizing its fund releases for the operation and attainment of the mandate of the agency.

3. CAB failed to conduct audit/ onsite verification of the sales and cargo production reports authorized under Section 13 of the CAB Economic Regulation No. 8 (ER No.8), as amended by Board Resolution No. 189-84 and Economic Regulation No.

4 (ER No. 4), thus, the accuracy of assessed and collected service income amounting to P51.963 million has not been fully validated/verified. In addition, deficiencies in the assessment forms used for supervision and verification fees that may indicate weakness in internal control were noted. **(Observation No. 4)**

We reiterated our prior year's recommendation that Management fill up vacant positions in the ACASFAD to augment its existing manpower, or in the alternative, adopt strategies to fully utilize and enhance the capability of the current personnel complement to conduct its regular field audit function. Further, consider the possibility of requesting for specific budget for this activity.

Moreover, we recommended and Management agreed to re-examine supervision and verification fees Assessment Forms and install the controls necessary to identify and show the names and signatures of personnel responsible in the preparation and review of the entries reflected therein. Management should encourage personnel's adherence to management policies in assessment and collection of fees and to maintain/ safeguard the integrity of the assessment process.

4. Disbursements for the payment of Flying Pay amounting to P8.378 million were made without an approved appropriation contrary to Section 29, Article VI of the 1987 Philippine Constitution and Section 72 (b) (ii) of the General Provisions of R.A. No. 10964 or the FY 2018 General Appropriations Act (GAA) which requires that modifications from one allotment class to another should be approved by the Department of Budget and Management (DBM). **(Observation No. 5)**

We recommended that Management request for the approval of additional fund modification from the DBM to cover the full amount already paid to its officials and employees to avoid incurring unauthorized amount of disbursement. Henceforth, ensure to include in future budget the total amount of flying pay that they plan to incur within the year to avoid the inconvenience of requesting for fund modification; and that all disbursements are within the approved appropriation of the agency.

5. Cash advances amounting to P8.378 million for Flying Pay were not liquidated within the period prescribed under COA Circular No. 2012-001 dated June 14, 2012. **(Observation No. 6)**

We recommended that management set a cut-off date for the submission of travel reports to be able to identify those compliant with the requirements who should be entitled to flying pay.

6. CAB insured their property against all risks with the General Insurance Fund of GSIS in compliance with the provisions of RA No. 656 otherwise known as the "Property Insurance Law", except for two (2) motor vehicles which incur gaps between insurance expiry and renewal periods. **(Observation No. 8)**

We recommended and Management agreed to:

- a) Ensure that all insurable property is fully covered with insurance policy during the year by promptly applying for insurance renewal; and
- b) Strictly comply with the provisions on property insurance under RA No. 656, EO No. 33, and COA-Circular No. 92-390.

The above observations and recommendations were discussed with concerned Management officials in an exit conference conducted on March 14, 2019 and their comments were incorporated in this report, where appropriate

G. Summary of Total Suspension, Disallowances and Charges

CAB has no outstanding suspensions, disallowances, and charges as of December 31, 2018. The CY 2017 outstanding balance for disallowance amounting to P137,886.00 issued on August 18, 2017 has already been refunded and settled in CY 2018 by persons liable per Official Receipt Nos. 8459508, and 8459631 to 8459636.

H. Status of Implementation of Prior Years' Audit Recommendations

Of the ten (10) outstanding prior years' audit recommendations as at January 1, 2018, four were reiterated in Part II of this report and six were fully implemented as of year-end. The details are presented in Part III of this Report.