



Philippines
COMMISSION ON AUDIT
Quezon City

INDEPENDENT AUDITORS' REPORT

The Board of Directors

Civil Aviation Authority of the Philippines
MIA Road, Pasay City

We have audited the accompanying financial statements of Civil Aviation Authority of the Philippines (CAAP) which comprise the balance sheet as at December 31, 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implanting and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion

The correctness of the cash-in-bank account balance of P3.666 billion could not be ascertained due to the non-recording of credits/withdrawals amounting to P237.698 million and debits/remittances amounting to P263.702 million due to lack of supporting documents.

Accounts Receivable account balance of P5.273 billion is unreliable and doubtful due to the delay in the issuance of assessments and billings of revenues. Subsidiary ledgers for various accounts receivables amounting to P4.449 billion were not updated, hence, when compared with the general ledger balances, a difference of P723.902 million was noted. Accounts Receivables amounting to P792.989 million was not provided with allowance for doubtful accounts to present its net realizable value in the financial statements. Accounts receivable amounting to P3.255 billion remained uncollected and outstanding for more than three years thereby casting doubts on their collectability. Collections of accounts receivables amounting to P331.477 million were credited to deferred credits pending the identification of the clients/depositors.

Advances to Officers and Employees amounting to P50.061 million remained unliquidated even if the purpose for which they are granted have already been served contrary to pertinent provisions of COA

Circular No. 97-002, dated February 10, 1997 thereby resulting in the overstatement of the current asset account balance and understatement of the expense account balance.

The validity and existence of the Due from Central Office, Due from Regional Office, Due to Central Office and Due to Regional Office account balances of P10.281 million, P200.934 million, (P71.834) million and P84.148 million, respectively are doubtful considering that these accounts are reciprocal accounts and should be eliminated or should have a zero balance at the end of the accounting period and upon combination of the financial statements of the Head Office and the Area Centers.

The existence and accuracy of the property and equipment account amounting to P1.974 billion could not be ascertained due to the failure to conduct physical inventory; under provision of depreciation; and incomplete records maintained by the Accounting Division and Supply Section in support of the General Ledger balance. Property and equipment worth P4.506 billion were reclassified as other assets due to the failure of Management to determine their validity and actual existence, even if the circumstances why these assets could not be identified and/or located are not investigated. Construction in Progress-Other Public Infrastructure account balance of P307.650 million is doubtful due to non-recognition of infrastructure projects worth P94.43 million already completed during the year and erroneous treatment of expenditure.

Current assets worth P451.16 million classified as other assets are not documented, thus their validity and actual existence could not be established.

The validity of the recorded Deposits on Letters of Credits amounting to P18.332 million is doubtful considering the long period they have been outstanding in the books. Likewise, details of the account could not be determined due to lack of subsidiary record.

The validity and actual existence of Due to Central Office-DOTC account balance of P51.400 million in the Head Office books could not be ascertained because the account has been outstanding for more than three (3) years and documents to support the account could not be presented.

Deferred Charges account balance of P302,774 do not reconcile with the account balance of P140.690 million or \$3.037 million per the Consolidated Statement of Estimated Fund Balance submitted by International Civil Aviation Organization (ICAO).

The accuracy and correctness of Advances to Contractors account balance of P4.605 million is doubtful due to the long period they have been outstanding in the books and some accounts have abnormal or credit balances.

The validity and propriety of the Due from National Government Agencies and Due from Local Government Units account balances amounting to P69.624 million and P42.471 million, respectively, could not be ascertained due to the long period they have been outstanding in the books; inclusion of unidentified accounts, and erroneous recording of transactions.

Adverse Opinion

In our opinion, due to the materiality of the effects on the financial statements of the matter referred to in the preceding paragraphs, the financial statements do not present fairly, in all material respects, the financial position of the CAAP as at December 31, 2009, and of its financial performance and its cash flows for the year then ended not in accordance with the generally accepted accounting principles.

COMMISSION ON AUDIT

MINERVA T. CABIGTING
Officer-in-Charge

August 27, 2010