



*Republic of the Philippines*  
**COMMISSION ON AUDIT**  
*Commonwealth Avenue, Quezon City, Philippines*

**INDEPENDENT AUDITORS' REPORT**

**The Board of Directors**

Civil Aviation Authority of the Philippines  
MIA Road, Pasay City

We were tasked to audit the accompanying financial statements of Civil Aviation Authority of the Philippines (CAAP), which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles generally accepted in the Philippines, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Philippine Standards on Auditing. Because of the matters described in the Basis of Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

*Basis for Disclaimer of Opinion*

The validity and accuracy of the balances as of December 31, 2010 of Accounts Receivable amounting to P3.647 billion and the corresponding Income from communication facilities in the total amount of P2.274 billion cannot be ascertained due to: i) the absence of corporate policy on revenue & collections; ii) the significant differences of the balances of Accounts Receivables per general ledger, subsidiary ledger and the aging of accounts receivable; iii) the differences between the recorded balances and the balances per confirmation from airline companies ; iv) the non-reconciliation of the collections recognized in the deferred credits account representing remittances made by airline companies directly to the bank; and v) the failure of the Authority to send demand letters and charge penalties for delinquent customers.

Current Assets, Property and Equipment, and Unserviceable and Fully Depreciated Assets with a total amount of P4.376 billion remain in the Other Assets account as of December 31, 2010 due to non determination by the Authority of their validity and actual existence.

The Authority has not completed the physical inventory of its property, plant and equipment in the total amount of P974.79 million. Also, there are vehicles which were not recorded. Moreover, the Authority's Accounting Division does not maintain equipment ledger cards. We were not able to verify the existence of these assets and validate the correctness of the balances by other alternative procedures due to inadequacy of records.

The validity of the recorded Deposit on Letters of Credit 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 records.

The reciprocal account balances between the CAAP Head Office and the CAAP Area Centers were not reconciled and, thus, not eliminated in the presentation of the financial statements. The presentation of these reciprocal accounts, i.e. Due from Regional Offices of P136.790 million and Due to Central Office of P62.720 million, as two separate line items misstated the total assets, total liabilities and other affected income and expense accounts by undetermined amounts.

The validity of the Due to Other NGAs account balance of P51.400 million in the Head Office books could not be ascertained due to lack/unavailability of supporting documents.

The validity and propriety of the Due from National Government Agencies and Due from LGUs accounts with balances of P67.812 million and P42.497 million, respectively, could not be ascertained due to a) the long period they have been outstanding in the books; b) inclusion of unidentified accounts; and c) erroneous recording of transactions.

The non-recognition of the foreign currency loss on matured time deposits resulted in the understatement of the recognized Loss on Foreign Exchange by P11.759 million and overstatement of the Cash In Bank – Foreign Currency-Time Deposit account by the same amount.

The non-recording of certain bank withdrawals resulted in the overstatement of the Cash in Bank-Foreign Currency and Cash in Bank-Local Currency accounts by to \$23,011.65 equivalent to P1.010 million and P284,200.94, respectively, with a corresponding understatement of the related expense accounts. The Cash account was likewise overstated by P2.057 million due to non-recording of the last quarter disbursements in Area 7.

The non-liquidation of the cash advances within the prescribed period resulted in the overstatement of Advances to Officers and Employees account by P29.797 million and the understatement of related expense/cash accounts.

Erroneous recording of obligated transactions resulted in the overstatement of several expense accounts in the total amount of P7.809 million and the understatement of the asset account by P2.809 million and the overstatement by P5 million of the payable account. Also, in Area 4 a total of P6.027 million obligated transactions coming from the Head Office were not supported with documents; hence, validity could not be ascertained.

In addition to all of the above, the Management of CAAP categorically stated in its Statement of Management's Responsibility that it does not take responsibility for the information and representations contained in the accompanying financial statements.

#### *Disclaimer of Opinion*

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion in the financial statements.

#### **Report on Supplementary Information Required Under Revenue Regulations 15-2010**

The Management of the CAAP has not presented the supplementary information on taxes, duties and license fees required for purposes of filling with the Bureau of Internal Revenue. Such information is not required part of the basic financial statements.

### **COMMISSION ON AUDIT**

**DIVINIA M. ALAGON**

Director IV

August 10, 2011