



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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Civil Aviation Authority of the Philippines
MIA Road, Pasay City

Report on the Financial Statements

We have audited the accompanying financial statements of Civil Aviation Authority of the Philippines (CAAP), which comprise the statement of financial position as at December 31, 2011, and the statement of comprehensive income, statement of changes in equity and statement 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 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 adverse opinion.

Basis for Adverse Opinion

The book balances of some ATO-transferred current assets and property, plant and equipment accounts, including those pertaining to unserviceable and fully depreciated assets, in the total amount of P5.479 billion and which were temporarily lodged in the "Other Assets" account pending verification remained unvalidated/unadjusted despite the lapse of three years since these were carried in the books of CAAP.

The fairness of the Property, Plant and Equipment account stated at a net book value of P9.192 billion as of December 31, 2011 could not be validated/substantiated because of lack of/ or incomplete inventory taking and inadequacy of records relative thereto. Further, the balance of P9.192 billion includes an appraisal adjustment of P6.844 billion which adjustment was subsequently reversed in 2012 as stated in Note 6 to the financial statements.

The fairness of the balance of Receivables of P6.350 billion as of December 31, 2011 is doubtful due to the existence of unreconciled balances between the general ledger and the subsidiary ledger and confirmation of some accounts. Further, the allowance provided for uncollectibility of P322.65 million on Accounts Receivables stated at P6.270 billion is inadequate considering the long outstanding status of a substantial portion of these accounts receivable.

Total assets and total liabilities in the Statement of Financial Position are overstated as they include the reciprocal accounts Due from Regional Offices and Due to Central Office accounts with balances of P245.260 million and P169.242 million, respectively. These balances should have been analyzed, reconciled and eliminated at the end of the year upon consolidation of the financial statements of the Head Office and the Area Centers.

The P51.4 million balance of the ATO-transferred account Due to DOTC-Central as of December 31, 2011 differs from the P96.645 million balance per DOTC books and the same could not be validated due to the unavailability of documents to support the account. The same is true with the ATO-transferred accounts Deposit on Letters of Credit and Receivables – Disallowances and Charges with balances of P18.332 million and P29.388 million, respectively, details of which could not be established.

The cash and related accounts are understated by P50.02 million because of the non-recording of collections pertaining to CY 2011. Also, the Due to National Treasury and Retained Earnings accounts are understated and overstated, respectively, due to the unrecognized dividend payable for CY 2011 equivalent to 50% of CAAP's Net Profit, as required under RA No. 7656 – An Act Requiring Government-Owned or Controlled Corporations to Declare Dividends Under Certain Conditions to the National Government, and for Other Purposes.

Adverse Opinion

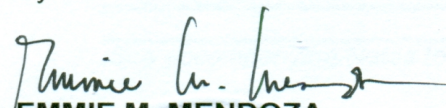
In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the financial statements do not present fairly the financial position of the CAAP as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with the state accounting principles generally accepted in the Philippines.

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 filing with the Bureau of Internal Revenue. Such information is not a required part of the basic financial statements.

COMMISSION ON AUDIT

By:


EMMIE M. MENDOZA
Director III

June 27, 2012