



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, 2012, 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 P5.543 billion and which were temporarily lodged in the "Other Assets" account pending verification remained unvalidated/unadjusted despite the lapse of almost four years since these were carried in the books of CAAP.

The validity and accuracy of the balance of Receivables accounts in the total amount of P10.603 billion as of December 31, 2012 cannot be ascertained. *Accounts Receivable* in the total amount of P6.733 billion (net), cannot be ascertained due to: a) the significant differences of the balances of Accounts Receivable per general ledger, subsidiary ledger and the aging of accounts receivable; b) the differences between the

recorded balances and the balances per confirmation from airline companies; c) the failure of the Authority to send demand letters and charge penalties for delinquent customers. Further, the allowance provided for uncollectibility of P345.101 million on Accounts Receivables stated at P6.732 billion is inadequate considering the long outstanding status of a substantial portion of these accounts receivable. The reliability and accuracy of *Due from National Government Agencies (NGAs)* and *Due from Local Government Units (LGUs)* accounts amounting to P65.19 million and P42.56 million respectively, could not be ascertained due to inadequacy of accounting records. *Receivables - Disallowances /Charges* account amounting to P29.13 million in which the persons liable for these disallowances were still not established/determined to date.

The fairness of the Property, Plant and Equipment account stated at a net book value of P2.64 billion as of December 31, 2012 could not be validated/substantiated because of lack of/ or incomplete inventory taking and inadequacy of records relative thereto.

Accounts Payable totaling P114.943 million in the Head Office were certified as payables without the submission of supporting documents to warrant the recognition and recording of the obligation.

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, 2012, 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:


GINA MARIA P. MOLINA
OIC – Supervising Auditor

June 28, 2013