



*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, 2013, and the statement of profit or loss, 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 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 about 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 significant effect of the following doubtful accounts transferred from the abolished Air Transportation Office (ATO) to the CAAP books of accounts since CY 2008 cannot be substantiated due to the inadequacy of accounting records and/or absence of supporting documents:

- Various Current Assets, Property and Equipment, and Unserviceable and Fully Depreciated Assets totaling P5.221 billion, P4.362 billion in the Head Office and P859.026 million in the Area Centers that were temporarily recorded under Other Assets account, remained unreconciled and unadjusted. This comprises 24 per cent of the total assets of the Authority;
- Accounts Receivable per General Ledger of P7.409 billion (net) has a variance of P737.175 million against the aging schedule of AR, has negative balances in the total amount of P27.415 million in the Head Office and the debtors' unsettled accounts of P5.510 billion or 88 per cent of the total AR of the Head Office dates back to 1997;
- Due from National Government Agencies (NGAs) and Due from Local Government Units (LGUs) of P65.001 million and P42.586 million, respectively, had no significant movement since their transfer from ATO; and
- The physical inventory conducted by the Authority on its property and equipment totaling P2.967 billion in CY 2013 cannot be relied upon since deficiencies were noted in the conduct of inventory and in the Report of Physical Count of Property and Equipment.

Accounts Payable totaling P53.529 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, 2013, 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 BIR Revenue Regulation 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**

  
**GINA MARIA P. MOLINA**  
Supervising Auditor

June 3, 2014