



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, 2014, 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:

- The Receivables' net balance of P8.457 billion is uncertain owing to the substantial variance between the total Accounts Receivable (AR) per General Ledger and per aging schedules of AR amounting to P797.912 million in the Head Office and P14.440 million in the Area Centers. There are also debtor's unsettled accounts which dates back to 1997 in the total amount of P4.468 billion in the Head Office and P857.885 million in the Area Centers and negative balances in the total amount of P37.744 million in the Head Office;
- Various Current Assets, Property and Equipment, and Unserviceable and Fully Depreciated Assets totaling P4.585 billion transferred from ATO books, which were temporarily lodged under the "Other Assets" in CY 2008 pending verification, remain unreconciled and unadjusted.
- The inadequately-conducted physical inventory of Property and Equipment (PE) renders the balance of the PE account in the Head Office amounting to P1.099 billion unreliable, which include the transferred PE from ATO books amounting to P134.011 million;

Cash in Bank is understated by P348.269 million as a result of unrecognized bank credits and other reconciling items; and

Unadjusted/unreconciled prior years' obligated transactions amounting to P22.269 million as of December 31, 2014.


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, 2014, 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 11, 2015