



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 statements of financial position as at December 31, 2016 and 2015, and the statements of profit or loss, statements of changes in equity and statements of cash flows for the years 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 audits. We conducted our audits in accordance with Philippine Public Sector 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

Long-outstanding accounts receivable of P4.739 billion and P5.576 billion as of December 31, 2016 and 2015, respectively, with the earliest accounts dating back to 1977, were provided with an allowance for uncollectibility of only 9.55% in 2016 and 8.66% in 2015, thereby overstating receivables as of those dates by P4.256 billion and P5.123 billion, respectively. Moreover, accounts receivable and cash in banks were, respectively, overstated and understated by P133.070 million in 2016 and P125.025 million in 2015, representing unrecognized reconciling items consisting of unaccounted/unidentified deposits, remittances and bank debit/credit memos.

The reported property, plant and equipment in the total amount of P9.902 billion as of December 31, 2016 differs by P2.784 billion when compared with the balance per inventory report/property records. On the other hand, other assets of P4.684 billion as of December 31, 2016 and 2015, consisting of the balances of various current assets, property and equipment and other transferred asset accounts from the books of the then Air Transportation Office in 2008 and were temporarily lodged under the other assets account pending verification, reconciliation and adjustments, remained as such with no significant changes to date. We were not able to conduct alternative audit procedures to establish the validity and accuracy of the reported balances of the above-mentioned accounts because of the absence of documents and the inadequacy of the accounting records.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our Report, the financial statements do not present fairly the financial position of the Civil Aviation Authority Philippines as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with state accounting principles generally accepted in the Philippines.

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

The Management of 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



SALVACION D. DELOS ANGELES
Supervising Auditor

June 21, 2017