



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Ave., Quezon City, Philippines

## **INDEPENDENT AUDITOR'S REPORT**

**The Board of Directors**  
Civil Aviation Authority of the Philippines  
MIA Road, Pasay City

### ***Report on the Audit of the Financial Statements***

#### **Qualified Opinion**

We have audited the financial statements of Civil Aviation Authority of the Philippines (CAAP), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of CAAP as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

#### **Basis for Qualified Opinion**

The non-reconciliation of the net variance of P105.066 billion as of December 31, 2017 between the balance per books and the balance per inventory report/property records of the Property and Equipment account, except for land and buildings amounting to P49.312 billion that are supported with Transfer Certificates of Title and are used in CAAP's operations; and the non-reconciliation of the discrepancy of P100.696 million of the balances between the general ledger and subsidiary ledgers of the Accounts Receivable account, cast doubt on the reliability of the recorded amounts as of December 31, 2017 and 2016, respectively, of the following: Property and Equipment account of P108.314 billion and P84.829 billion, and Accounts Receivable account of P3.883 billion and P9.316 billion. The status of CAAP's records and the inadequacy of data/information did not permit us to apply alternative audit procedures, thus, the adjustments necessary in the circumstances cannot be determined.

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of CAAP in accordance with the Code of Ethics for

Government Auditors (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Other Matters**

In our report, dated June 21, 2017, we expressed an opinion that the 2016 financial statements did not present fairly the financial position, results of operations and cash flows of CAAP in accordance with state accounting principles generally accepted in the Philippines because of various departures among which are the inadequacy of allowance for uncollectibility of long-outstanding accounts receivable of P4.739 billion; and overstatement and understatement, respectively, of the Accounts Receivable and Cash in Banks by P133.070 million representing unrecognized reconciling items consisting of unaccounted/unidentified deposits, remittances and bank debit/credit memos. In addition, we were not able to conduct alternative audit procedures to establish the validity and accuracy of the reported balance of the other assets account of P4.684 billion as of December 31, 2016, 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 (ATO), because of the absence of documents and the inadequacy of accounting records.

The long-outstanding accounts that were not provided with allowance for uncollectibility were already settled in 2017 as discussed in Note 9 to the financial statements. Moreover, as stated in Note 7 to the financial statements, the unrecognized deposits since 2011 were already recorded in the cash account. Lastly, as discussed in Note 3 to the financial statements, CAAP has prepared its financial statements in accordance with PFRSs and made a retrospective restatement or reclassification of items that have material effect on the information in the statement of financial position at the beginning of the preceding period. As such, the other assets account consisting of land, land improvements, buildings and taxiways amounting to P3.111 billion were reclassified to the appropriate property and equipment accounts while the remaining balance of the other assets account that were found to be dormant, undocumented and unserviceable amounting to P1.573 billion were provided with full allowance for impairment. CAAP has subsequently restated the 2016 financial statements to conform with PFRSs. Accordingly, our present opinion on the restated 2016 financial statements, as presented herein, is no longer modified concerning those matters.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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.

In preparing the financial statements, management is responsible for assessing CAAP's ability to continue as a going concern, disclosing, as applicable, matters related to going



concern and using the going concern basis of accounting unless management either intends to liquidate CAAP or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing CAAP's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 CAAP's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on CAAP's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause CAAP to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

***Report on Other Legal and Regulatory Requirements***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 32 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRSs. Such supplementary information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**COMMISSION ON AUDIT**



**SALVACION D. DE LOS ANGELES**  
Supervising Auditor

July 9, 2018