



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

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

Adverse 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, 2021 and 2020, 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, because of the significance of the matter discussed in the Bases for Adverse Opinion paragraph of our report, the accompanying financial statements do not present fairly the financial position of CAAP as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Bases for Adverse Opinion

As at December 31, 2021, the qualitative characteristics of verifiability and faithful representation of the following accounts were not met/could not be ascertained which is not in accordance with Philippine Accounting Standards (PAS) 1 on *Presentation of Financial Statements* and the Conceptual Framework for Financial Reporting:

- a) Property and Equipment (PE) account amounting to P80.937 billion – due to the non-reconciliation of the variance amounting to P20.745 billion and P121.128 million between the balance per General Ledger (GL) vis-à-vis the balances per inventory report/property records and the Subsidiary Ledgers (SLs), respectively; erroneous valuation of Land and non-recognition of Depreciation Expenses for completed infrastructure projects still recorded in Construction in Progress accounts instead of PE, which resulted in the overstatement of PE amounting to P668.333 million and P99.762 million, respectively, understatement of Depreciation Expenses accounts by P30.140 million, and the overstatement of Government Equity and Retained Earnings (RE) accounts by P668.333 million and P69.622 million, respectively; and, the non-recognition of various properties found in station at a minimum amount of P62.308 million which resulted in the understatement of PE. While the non-adjustment of Depreciation Expenses brought about by numerous misclassifications within the account understated PE by P24.758 million, and overstated Depreciation Expense and RE by P9.352 million and P15.406 million, respectively.

- b) Accounts Receivable (AR) and Operating Lease Receivable accounts totaling P4.616 billion – due to the non-reconciliation of the variance of P1.268 billion between the balances of the GL and SLs.
- c) Guaranty/Security Deposits Payable account balance of P179.029 million – due to the non-reconciliation of the variance of P97.441 million between the balances of GL and SLs; and erroneous classification of retention money which overstated the account and understated Due to National Government Agencies (NGAs) account, both by P70.326 million.
- d) Inventory account amounting to P135.623 million – due to the non-reconciliation of the variance amounting to P77.573 million between the balance per General Ledger (GL) vis-à-vis the balance per inventory report/property records; erroneous recording of payment for purchases and the delivery and issuances of supplies inventory for a net understatement of P22.524 million, the overstatement of various supplies expense accounts by P25.210 million, and the understatement of Due from Other Government Corporation and Other Prepayments accounts by P2.362 million and P325,085, respectively; and the continuous non-recording of fuel consumption and impairment loss for obsolete accountable forms which resulted in the overstatement of the Fuel, Oil and Lubricant Inventory and the Accountable Forms, Plates and Stickers Inventory accounts.
- e) Income and expenses accounts – due to the non-adjustment of the rental income from concessionaires, whose applications were approved to avail of the Lease/Rental Payment Holiday, recorded under the Rent/Lease Income account totaling P86.088 million contrary to PAS 10 on *Events after the Reporting Period*; due to the untimely recording of remittances of Domestic Passenger Service Charge from airline carriers amounting to P61.803 million in the Transportation System Fee; unbilled, over/under-billed and/or erroneous recording of Air Navigational Charges which resulted in the net understatement of the Income from Communication Facilities account by P15.802 million, RE by P18.257 million and the AR by P34.059 million; and various misclassification within Maintenance and Other Operating Expenses totaling P55.677 million.

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 adverse opinion.

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 PFRS, 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 37 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to auditing procedures applied in our audits of the basic financial statements. Because of the significance of the matter described in the *Bases for Adverse Opinion* paragraph, it is inappropriate to and we do not express an opinion on the information referred to above.

COMMISSION ON AUDIT



VIRGINIA A. LERO
Supervising Auditor

June 7, 2022