



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, 2018 and 2017, 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 effects/possible effects of the matters discussed 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, 2018 and 2017, 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 variance between the balance per General Ledger (GL) and the balance per inventory report/property records of the Property and Equipment (PE) account amounting to P19.163 billion as of December 31, 2018 and P105.066 billion as of December 31, 2017; the non-reconciliation of the variance of P919.549 million as of December 31, 2018 and P100.696 million as of December 31, 2017 between the GL balances and subsidiary ledgers of the Accounts Receivable (AR) account, as well as the variance between the balance per books of the AR account and the confirmation replies from creditors amounting to P425.352 million in CY 2018, cast doubt on the reliability of the recorded amounts as of December 31, 2018 and 2017, respectively, of the following: Property and Equipment account of P78.455 billion and P77.722 billion, and Accounts Receivable account of P4.480 billion and P4.068 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.

The faithful representation of the Accounts Payable (AP) account was not achieved due to the existence of unsubstantiated accruals in the AP account amounting to P156.823 million consisting of Construction in Progress (CIP) amounting to P148.417 million and expenses of P8.406 million, thus overstating the AP and CIP accounts by P156.823 million and P148.417 million, respectively, as of December 31, 2018. Expenses for CY 2018 is likewise overstated by P8.406 million. The Conceptual Framework for Financial Reporting states that one of the elements directly related to financial position is the liability. A liability is defined as a present obligation of the entity arising from past events the settlement of

which is expected to result in an outflow from the entity of resources embodying economic benefits. There is no proof that the Authority has obligations amounting to P156.823 million as the AP was supported by mere Budget Utilization Request and Certification of Work Accomplishment issued by the Aerodrome Development and Management Service in the case of the recorded CIP. There were no progress billings from the contractor/suppliers concerned, thus no valid claims.

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.

### **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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

#### ***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 34 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. In our opinion, except for the effects/possible effects of the matters described in the Basis for Qualified Opinion section, the supplementary 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 19, 2019