



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

Qualified Opinion

We have audited the financial statements of the Civil Aviation Authority of the Philippines (CAAP), which comprise the statements of financial position as at December 31, 2023, and 2022, 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 and possible effects of the matter discussed in the Bases for Qualified Opinion paragraph of our report, the accompanying financial statements present fairly, in all material respects, the financial position of CAAP as at December 31, 2023, and 2022, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Bases for Qualified Opinion

As at December 31, 2023, 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:

1. Property and Equipment (PE) account with a carrying value amounting to P57.156 billion due to: a) the non-reconciliation of the variance amounting to P10.817 billion and P112.328 million between the balance per General Ledger (GL) vis-à-vis the balances per inventory report/property records and the Subsidiary Ledgers (SLs), respectively; and b) the non-recognition of land with an undetermined area and value, located in Pasay City, where the CAAP-Head Office Administrative Compound, Manila Control Tower, CAAP Hangar and Manila Radar are situated.
2. Accounts Receivable (AR) and Operating Lease Receivable accounts with carrying value amounting to P3.906 billion and P308.477 million, respectively, due to: a) the inadequate allowance for expected credit loss despite the existence of long-outstanding receivable balances with a carrying value of P1.622 billion; and b) the non-reconciliation of the variance of P344.790 million between the balances of the GL and SLs.

3. Input Tax account amounting to P269.582 million due to the non-reconciliation of the variance of P210.671 million between the GL and the input tax computed from unpaid purchases in accounts payable.
4. Inventory account amounting to P138.194 million due to: a) the non-reconciliation of the variance of P47.193 million between the balance per GL vis-à-vis the balances per inventory reports/property records; b) unrecorded utilization of inventory; and c) non-recognition of impairment loss to write-down inventory to its net realizable value not in accordance with PAS 2 on *Inventories*.

We conducted our audits in accordance with the 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.

Other Matters

In our report dated June 7, 2023, we expressed an adverse opinion that the 2022 financial statements did not present fairly the financial position, results of operations, and cash flows of CAAP because the qualitative characteristics of verifiability, and faithful representation of PE, AR, and Inventory accounts were not met/could not be ascertained. We observed, in particular, the following: 1) non-recognition of Service Concession Assets relative to the Caticlan Airport Development Project amounting to P3.516 billion in PE account, and the related Deferred Service Concession Revenue, Service Concession Revenue, Depreciation Expenses and Accumulated Depreciation; 2) the non-recognition of receivables arising out of erroneous billings and collections of foreign-denominated Air Navigational Charges which resulted in the understatement of the AR and Gain on Foreign Exchange accounts amounting to P41.383 million; 3) the over-valuation of the AR account because of the non-revaluation of foreign-denominated receivables at the time of payment and at year-end as required under PAS 21 on *The Effects of Changes in Foreign Exchange Rates* amounting to P21.919 million and P16.757 million, respectively, which resulted in the overstatement of the Retained Earnings account by P21.919 million and the understatement of the Loss on Foreign Exchange account by P16.757 million, and 4) the existence of negative/abnormal balances amounting to 10 million in AR account.

In 2023, CAAP made significant efforts to secure the necessary information on the Caticlan Airport Development Project and to finally record the Service Concession Assets in the books of accounts. Further, the various misstatements involving foreign-denominated transactions affecting the AR account, among others, were adjusted. The negative/abnormal balances in the AR account were likewise corrected by recording the same in the appropriate liability account.

Accordingly, our opinion on the restated 2022 financial statements, as presented herein, differs from that expressed in our previous report.

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 required under Revenue Regulations No. 15-2010 in Note 40 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 Qualified 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 6, 2024