

Civil Aviation Authority

**Financial Statements
For the year ended June 30, 2017**

03-52 / 1669
May 12, 2018

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The Board of Directors
Civil Aviation Authority
Headquarters Civil Aviation Authority
Terminal 1 Building
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Dear Sirs,

Audit of the draft financial statements of Civil Aviation Authority (the Authority) for the year ended June 30, 2017

This is with reference to our letter no. 03-52 / 1145 dated January 15, 2018, addressed to the Board of Directors, covering our initialed draft audit report (**audit deliverables**) and initialed draft financial statements prepared by management, which we provided in respect of our audit of draft financial statements of Civil Aviation Authority (CAA) for the year ended June 30, 2017.

Our initial draft audit report provided to you vide letter no. 03-52 / 1145 dated January 15, 2018, inter alia, included the following audit qualification which has been reproduced below:

"The Authority is governed by the Pakistan Civil Aviation Authority Ordinance, 1982 (the Ordinance). Section 16(1) of the Ordinance states "There shall be a Fund to be known as the "Civil Aviation Authority Fund" which shall vest in the Authority and shall be utilized by the Authority to meet charges in connection with its functions under the Ordinance, including the payment of salaries and other remuneration to the Director General, officers, servants, experts and consultants of the Authority."

Section 16(2) of the Ordinance states "The Civil Aviation Authority Fund shall consist of (i) grants made by the Federal Government; (ii) loans obtained from the Federal Government; (iii) sale proceeds of bonds issued under the authority of the Federal Government; (iv) loans obtained by the Authority with the special or general sanction of the Federal Government; (v) foreign aid and loans obtained with the sanction of, and on such terms and conditions as may be approved by the Federal Government; and (vi) all other sums received and fees collected by the Authority.

Paragraph 24 of IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" states that "Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset."

Paragraphs 26 and 27 of IAS 20 further explain accounting treatment of government grants as follows:

- Paragraph 26 states "One method recognizes the grant as deferred income that is recognized in profit or loss on a systematic basis over the useful life of the asset." and
- Paragraph 27 states "The other method deducts the grant in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense."

BYA

