

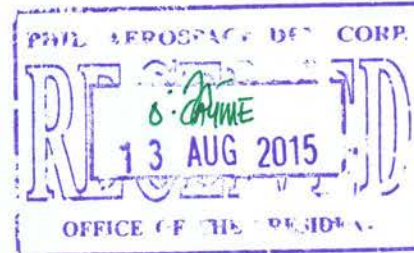


*Republic of the Philippines*  
**COMMISSION ON AUDIT**  
*Commonwealth Ave., Quezon City, Philippines*

**CORPORATE GOVERNMENT SECTOR**  
**Office of the Director**  
**CLUSTER IV – INDUSTRIAL & AREA DEVELOPMENT**

August 12, 2015

**THE BOARD OF DIRECTORS**  
Philippine Aerospace Development Corporation  
Pasay City



**Gentlemen:**

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Philippine Aerospace Development Corporation for the year ended December 31, 2014.

We expressed an adverse opinion on the fairness of presentation of the financial statements of the Corporation as at December 31, 2014 because inventories stated at P49.608 million are overstated by P42.258 million. This is due to the inadequacy of the P23.564 million allowance for obsolescence provided on items which are considered worthless because they could no longer be installed to aircrafts or be sold for lack of authenticating documents from their respective manufacturers.

The significant observations and recommendations that need immediate action are as follows:

1. Long outstanding balances of receivables from the Corporation's former officers and employees totaling P1.934 million remain unsettled despite being raised as a concern in previous years' audits.

We recommended that Management intensify its efforts to locate and communicate with the former personnel to convey its determination to collect the amounts due. It was also suggested that the Office of the Government Corporate Counsel (OGCC) be consulted on what possible legal remedy, if any, can be employed to address the matter.

2. The recording of accruals and payments of liabilities to the Commission on Audit (COA) and OGCC representing assessments for cost of audit and legal services, respectively, are not updated.

We recommended that Management validate the amounts reflected in the summary of cost of audit prepared by the COA's Planning, Financial and Management Sector (PFMS). Likewise, it was recommended that the liability account be updated by

recognizing the charges in the books of accounts and to make periodic payments to the COA and OGCC.

3. Dividends payable to the National Government totaling P6.404 million covering calendar years 2011 to 2014 have yet to be remitted by the Corporation.

We recommended that Management cause the remittance of the dividends due to the National Government pursuant to R.A. 7656.

The other audit observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 28, 2015, are presented in detail in Part II of the report.

In a letter of even date, we requested the Corporation's President and Chief Executive Officer to implement the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

#### COMMISSION ON AUDIT

By:

  
**LEILA S. PARAS**  
Director IV

Drafted by .....  
(Full name & designation)

Typed by .....  
(Full name)

Reviewed by  .....  
(Full name & designation)

Assistant Officer-In-Charge .....  
(Full name)

#### Copy furnished:

The President of the Republic of the Philippines  
The Vice President  
The Speaker of the House of Representatives  
The Chairperson – Senate Finance Committee  
The Chairperson – Appropriations Committee  
The Secretary of the Department of Budget and Management  
The Governance Commission for Government-Owned or Controlled Corporations  
The Presidential Management Staff, Office of the President  
The UP Law Center



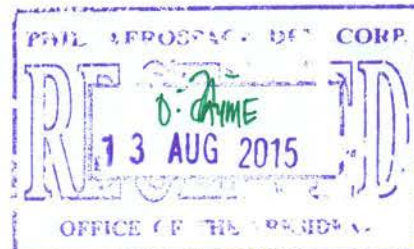


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**CORPORATE GOVERNMENT SECTOR**  
**Office of the Director**  
**CLUSTER IV – INDUSTRIAL & AREA DEVELOPMENT**

August 12, 2015

**Commodore GILBERT S. RUERAS (Ret.)**  
President and Chief Executive Officer  
Philippine Aerospace Development Corporation  
Pasay City



**Sir :**

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We request that appropriate actions be taken on the observations and recommendations contained in the report and that we be informed on the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation Form (copy attached) within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

#### COMMISSION ON AUDIT

By:

  
**LEILA S. PARAS**  
Director IV

Drafted by .....  
(Full name & designation)

Type by .....  
(Full name)

Reviewed by  .....  
(Full name & designation)

As Issued Officer-In-Charge .....  
(Full name)

#### Copy furnished:

The President of the Republic of the Philippines  
The Vice President  
The Speaker of the House of Representatives  
The Chairperson – Senate Finance Committee  
The Chairperson – Appropriations Committee  
The Secretary of the Department of Budget and Management  
The Governance Commission for Government-Owned or Controlled Corporations  
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