



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

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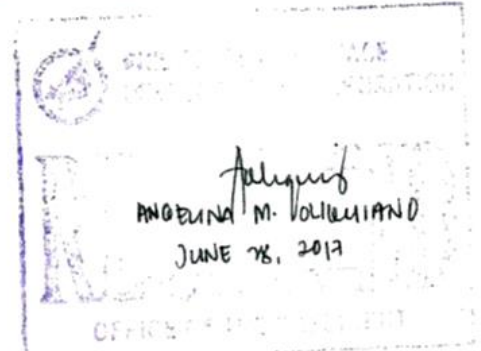
CORPORATE GOVERNMENT SECTOR
Office of the Director
CLUSTER IV – INDUSTRIAL & AREA DEVELOPMENT

June 27, 2017

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 Annual Audit Report (AAR) on the results of the audit of the accounts and transactions of the Philippine Aerospace Development Corporation for the year ended December 31, 2016.

We rendered an adverse opinion on the fairness of presentation of the financial statements for the years 2016 and 2015 because aircraft inventories stated at P40.919 million as of December 31 of both years are overstated by P17.355 million. This is due to the inadequacy of the P23.564 million allowance for obsolescence provided during the same periods 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 other significant audit observations and recommendations are as follows:

1. The Corporation has not been able to generate operating revenue from its core business mandate for the past five consecutive years thereby indicating an immediate need to perform a comprehensive evaluation of its structure, policies and business processes to determine its sustainability as a going concern.

We recommended that PADC's governing body and corporate management initiate a comprehensive review of its structure, policies and business processes to promptly address the challenging state of affairs of the Corporation.

2. Failure of the Corporation to renew its Bureau of Customs (BOC) Importation License in a timely manner resulted in the incurrence of unnecessary costs for the release of aircraft parts from the BOC warehouse.

We recommended that Management conduct an inquiry into the cause of the Corporation's failure to renew its importation license in order to pinpoint responsibility therefore and to avoid recurrence of the situation in the future.

3. The Corporation has yet to remit to the National Government (NG) about P11.049 million in dividends for past and current years' earnings as required by Republic Act No. 7656.

We reiterated our recommendation that Management strictly comply with the provisions of RA 7656.

4. The recording of accruals and the payment of liabilities to COA and OGCC representing assessments for cost of audit and legal services of P35.771 million and P2.384 million, respectively, are not updated.

We recommended that Management:

- a) Validate the COA PFMS cost of audit summary to determine if there are any unrecorded payments made by PADCO or any other inconsistencies therein so that the amounts can be reconciled;
- b) Recognize in the books of accounts the accrued cost of audit and legal services; and
- c) Make periodic payments to COA and OGCC.

The other audit observation, together with the recommended course of action which was discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 19, 2017, are presented in detail in Part II of the AAR.

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

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
CLUSTER IV – INDUSTRIAL & AREA DEVELOPMENT

June 27, 2017

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



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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

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