



**REPUBLIC OF THE PHILIPPINES**  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City

**CORPORATE GOVERNMENT SECTOR**  
**Cluster 4 – Industrial and Area Development**

June 11, 2019

**The Board of Directors**

Philippine Aerospace Development Corporation  
General Aviation Area, Domestic Road  
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 Philippine Aerospace Development Corporation (PADC) for the years ended December 31, 2018 and 2017.

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements for the years 2018 and 2017 because the balance of the Spare Parts Inventory account of P54.754 million is unreliable due to the Management's non-assessment of the usability and commercial value of these inventories as of December 31, 2018. It was reported as early as 2015, that the account includes aircraft spare parts costing P40.919 million which are obsolete/unserviceable, however, the allowance for obsolescence of P23.564 million provided on the said inventories was short by P17.355 million and the amount of allowance remained the same as of December 31, 2018, overstating the inventories account. Also, the cost of audit services amounting to P32.567 million as of December 31, 2018 was not accrued in the books which is not in accordance with the provision of par. 27 of PAS No. 1, which requires that an entity shall prepare its financial statements using the accrual basis of accounting, resulting in the misstatements of liability, expenses and net income.

The other significant audit observations and recommendations are as follows:

1. PADC is no longer performing its core mandate, and had incurred financial operational losses totaling P177.904 million for the past six years (CYs 2013-2018), which warrant a comprehensive review of its structure, policies, financial capability and business market to determine the sustainability and economic viability of its continued existence.

*Handwritten:* 6-11-2019  
rcab by Dale C. Alvarez

We recommended that Management:

- a) Perform a comprehensive review of the Corporation's structures, policies, business market and the viability of its continuous operation. In determining its viability and necessity, Management should assess, among others, the following: ( a) current condition of the aviation industry; (b) PADC's existing facilities and its technical capability; (c) PADC's financial position; and (d) competitiveness with private suppliers/local representatives of foreign suppliers/distributors, in view of the open/free trade agreements of the Philippines with some partner/allied countries;
  - b) Submit the results of the review/assessment with corresponding recommendations to the Governing Board, for their appropriate action; and
  - c) Initiate immediate action to address the identified problems (e.g. absence of tax clearance, expired accreditation, poor facilities) while the review is on-going.
2. PADC has yet to declare dividends and remit to the National Government (NG) the amount of P23.890 million representing the dividends for past and current years' earnings as required under Republic Act No. 7656.

We recommended that Management:

- a) propose to the Board of Directors the declaration of dividends for each year beginning 2014;
  - b) direct the Accountant to recognize/record the dividends payable of P8,515,209 once the dividends has been declared;
  - c) subsequent to a) and b), remit the dividends totaling P23,889,683 to the NG.
3. PADC was not able to implement its targeted GAD projects and activities, thus the identified GAD issues and concerns were not addressed, denying its women populace and other intended beneficiaries the advantages/improvement that could have been attained/realized from such activities. Moreover, PADC did not comply with the minimum GAD fund allocation of at least 5 per cent of the Corporation's budget as mandated in the Magna Carta for Women which could have been mainstreamed in the plans and budget for its regular programs, activities and projects.

We recommended that Management comply with the pertinent provisions of RA 9710; likewise, properly monitor the implementation of target GAD activities identified in the GAD Plans and Budget.

The other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on April 3, 2019, 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 take appropriate action on 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:

  
**ELSIELIN C. MASANGCAY**  
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  
The National Library

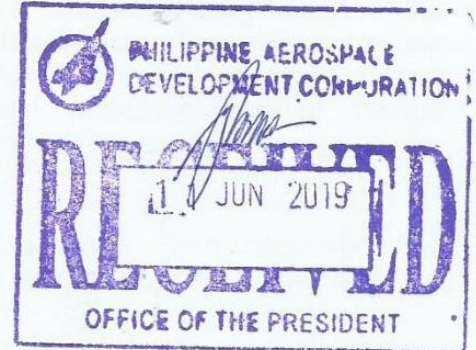


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**CORPORATE GOVERNMENT SECTOR**  
**Cluster 4 – Industrial and Area Development**

June 11, 2019

**Atty. STEVE VICTOR R. SICLOT**  
President and Chief Executive Officer  
Philippine Aerospace Development Corporation  
Pasay City



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The other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference on April 3, 2019, are presented in detail in Part II of the Report.

We request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of 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:

  
**ELSIELIN C. MASANGCAY**  
Director IV

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