



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

CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 4 – INDUSTRIAL AND AREA DEVELOPMENT

May 23, 2022

Atty. RAYMOND L. MITRA

Acting President and Chief Executive Officer
Philippine Aerospace Development Corporation
Hangar 2, General Aviation Area, Domestic Road,
Pasay City

Sir:



Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of audit of the accounts and transactions of Philippine Aerospace Development Corporation (PADC) for the years ended December 31, 2021 and 2020.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Year's Audit Recommendations.

The Auditor expressed an adverse opinion on the fairness of presentation of the financial statements because:

The requirement under paragraph 28 of Philippine Accounting Standard (PAS) 2 on writing inventories down below cost to net realizable value to ensure that inventories are not carried in excess of amounts expected to be realized from their sale or use was not observed in the presentation of the Merchandise Inventory account. Also, the existence of Merchandise Inventory totaling P68.546 million, with a carrying value of P44.983 million as of December 31, 2021 was not ascertained due to non-submission of Report on Physical Count of Inventories and the non-reconciliation of physical inventory results with accounting records.

The Property and Equipment (PE) account amounting to P86.559 million, with carrying value of P10.629 million may not be a faithful representation of 5.12 per cent of PADC's assets because of the non-submission of the Report on Physical Count of PPE (RPCPPE), showing the quantity per Property Card and per Physical Count which prevented the determination of the total value of PE counted and their condition, and the non-reconciliation of physical inventory results with accounting records.

The Receivables totaling P46.827 million were not assessed to determine current/updated evidence of impairment as required under Philippine Financial Reporting Standard (PFRS) 9, thus, the amortized cost of P41.340 million could be more than its recoverable amount.

The balance of Accounts Payable – Trade of P1.932 million as of December 31, 2021 is understated by P7.295 million because of the non-recognition of rental, VAT and interest due to the Manila International Airport Authority (MIAA) covering the period June 2019 to December 31, 2021. The MIAA imposed a rental increase effective June 2019, however, PADC did not recognize the unpaid accounts related to the increase, and decided to seek clarification and legal opinion from the Office of the Government Corporate Counsel on the matter.

For the above observations which caused the issuance of adverse opinion, we recommended that Management:

On Merchandise Inventory:

- a. Require the Inventory Team to complete the inventory-taking process and the Accounting Division to ensure that the balance of Merchandise Inventory per books of accounts, per count and per stock cards are reconciled;
- b. Comply with PAS 2, on Inventories, by presenting the valuation of Merchandise Inventory at lower of cost or net realizable value;
- c. Submit to the Audit Team the Report on Physical Count of Inventories as required under Section 122 of PD No. 1445; and
- d. Consider hiring a third party appraiser to come up with the correct inventory valuation and make the necessary adjustments to the inventory account in the books.

On Property and Equipment:

- a. Require the Inventory Team to complete the inventory-taking process and the Accounting Department to ensure that the balance of PE per books of accounts, per count or RPCPPE and per ledger cards are reconciled; and
- b. Submit the RPCPPE for CY 2021 in prescribed format and duly signed by the Inventory Committee and approved by the Agency Head.

On Receivables:

- a. Conduct an assessment at the end of each reporting period to determine sufficiency of Allowance for Impairment so that the valuation of receivables at amortized cost will not exceed the recoverable amount;
- b. Formulate a policy on the provision for impairment loss on receivables to align with the requirements of PFRS 9; and
- c. Make representation with the Philippine National Police to request for the settlement of their unpaid accounts.

On Accounts Payable:

- a. Recognize in the books of accounts the correct amount of liability to MIAA and other affected accounts; and
- b. Make representation with Airbus Helicopters Philippines, Inc. (AHPI) to negotiate for the increase in the rental rate corresponding to the additional rental being billed by MIAA at 30 per cent of rental of AHPI effective June 16, 2019.

The following are the other significant observations and recommendations:

1. Note 3 to the financial statements on Management's assessment of PADC's going concern assumption is not a faithful representation of the actual conditions that manifest doubt on PADC's ability to continue as a going concern entity.

We reiterated our previous year's recommendations that Management:

- a. Provide the Audit Team with the assessment of the ability to continue as a going concern, considering the noted uncertainties, and the Management's plans for future actions in relation to the going concern assessment, and the written representations from Management or, where appropriate, those charged with governance, regarding its plans for future action and the feasibility of these plans; and
 - b. Include the necessary disclosure, related to the doubts identified by the Management in the assessment of going concern, in the Notes to Financial Statements.
2. The Dividends due to the National Government (NG) for Dividend Years 2019 to 2020 totaling P14.561 million was not remitted, contrary to Section 5a of the Revised Implementing Rules and Regulations of Republic Act No. 7656. Likewise, of the P15.940 million dividends due on December 31, 2021, under staggered payment scheme, only P6.359 million was remitted.

We recommended that Management:

- a. Remit the dividends due to NG within the deadline set of on or before May 15 of each year; and
- b. Coordinate with the Department of Finance regarding the arrangements on the settlement of unpaid dividends.

We respectfully 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:


EMMA V. MOISES
OIC-Cluster Director

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 – Senate 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



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

CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 4 – INDUSTRIAL AND AREA DEVELOPMENT

May 23, 2022

The Board of Directors

Philippine Aerospace Development Corporation
Hangar 2, 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 (PD) No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of audit of the accounts and transactions of Philippine Aerospace Development Corporation (PADC) for the years ended December 31, 2021 and 2020.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Year's Audit Recommendations.

The Auditor expressed an adverse opinion on the fairness of presentation of the financial statements because:

The requirement under paragraph 28 of Philippine Accounting Standard (PAS) 2 on writing inventories down below cost to net realizable value to ensure that inventories are not carried in excess of amounts expected to be realized from their sale or use was not observed in the presentation of the Merchandise Inventory account. Also, the existence of Merchandise Inventory totaling P68.546 million, with a carrying value of P44.983 million as of December 31, 2021 was not ascertained due to non-submission of Report on Physical Count of Inventories and the non-reconciliation of physical inventory results with accounting records.

The Property and Equipment (PE) account amounting to P86.559 million, with carrying value of P10.629 million may not be a faithful representation of 5.12 per cent of PADC's assets because of the non-submission of the Report on Physical Count of PPE (RPCPPE), showing the quantity per Property Card and per Physical Count which prevented the determination of the total value of PE counted and their condition, and the non-reconciliation of physical inventory results with accounting records.

The Receivables totaling P46.827 million were not assessed to determine current/updated evidence of impairment as required under Philippine Financial Reporting Standard (PFRS) 9, thus, the amortized cost of P41.340 million could be more than its recoverable amount.

The balance of Accounts Payable – Trade of P1.932 million as of December 31, 2021 is understated by P7.295 million because of the non-recognition of rental, VAT and interest due to the Manila International Airport Authority (MIAA) covering the period June 2019 to December 31, 2021. The MIAA imposed a rental increase effective June 2019, however, PADC did not recognize the unpaid accounts related to the increase, and decided to seek clarification and legal opinion from the Office of the Government Corporate Counsel on the matter.

For the above observations which caused the issuance of adverse opinion, we recommended that Management:

On Merchandise Inventory:

- a. Require the Inventory Team to complete the inventory-taking process and the Accounting Division to ensure that the balance of Merchandise Inventory per books of accounts, per count and per stock cards are reconciled;
- b. Comply with PAS 2, on Inventories, by presenting the valuation of Merchandise Inventory at lower of cost or net realizable value;
- c. Submit to the Audit Team the Report on Physical Count of Inventories as required under Section 122 of PD No. 1445; and
- d. Consider hiring a third party appraiser to come up with the correct inventory valuation and make the necessary adjustments to the inventory account in the books.

On Property and Equipment:

- a. Require the Inventory Team to complete the inventory-taking process and the Accounting Department to ensure that the balance of PE per books of accounts, per count or RPCPPE and per ledger cards are reconciled; and
- b. Submit the RPCPPE for CY 2021 in prescribed format and duly signed by the Inventory Committee and approved by the Agency Head.

On Receivables:

- a. Conduct an assessment at the end of each reporting period to determine sufficiency of Allowance for Impairment so that the valuation of receivables at amortized cost will not exceed the recoverable amount;
- b. Formulate a policy on the provision for impairment loss on receivables to align with the requirements of PFRS 9; and
- c. Make representation with the Philippine National Police to request for the settlement of their unpaid accounts.

On Accounts Payable:

- a. Recognize in the books of accounts the correct amount of liability to MIAA and other affected accounts; and
- b. Make representation with Airbus Helicopters Philippines, Inc. (AHPI) to negotiate for the increase in the rental rate corresponding to the additional rental being billed by MIAA at 30 per cent of rental of AHPI effective June 16, 2019.

The following are the other significant observations and recommendations:

1. Note 3 to the financial statements on Management's assessment of PADC's going concern assumption is not a faithful representation of the actual conditions that manifest doubt on PADC's ability to continue as a going concern entity.

We reiterated our previous year's recommendations that Management:

- a. Provide the Audit Team with the assessment of the ability to continue as a going concern, considering the noted uncertainties, and the Management's plans for future actions in relation to the going concern assessment, and the written representations from Management or, where appropriate, those charged with governance, regarding its plans for future action and the feasibility of these plans; and
 - b. Include the necessary disclosure, related to the doubts identified by the Management in the assessment of going concern, in the Notes to Financial Statements.
2. The Dividends due to the National Government (NG) for Dividend Years 2019 to 2020 totaling P14.561 million was not remitted, contrary to Section 5a of the Revised Implementing Rules and Regulations of Republic Act No. 7656. Likewise, of the P15.940 million dividends due on December 31, 2021, under staggered payment scheme, only P6.359 million was remitted.

We recommended that Management:

- a. Remit the dividends due to NG within the deadline set of on or before May 15 of each year; and
- b. Coordinate with the Department of Finance regarding the arrangements on the settlement of unpaid dividends.

The audit observations and recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on April 8, 2022, are presented in detail in Part II of this report.

In a letter of even date, we requested the Corporation's Acting President and Chief Executive Officer to take appropriate action on the recommendations contained in the report and to inform this Office of the action taken thereon within 60 days from 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:


EMMA V. MOISES
OIC-Cluster Director

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 – Senate 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