

## EXECUTIVE SUMMARY

### INTRODUCTION

The Philippine Aerospace Development Corporation (PADC) was created by virtue of Presidential Decree (PD) No. 286 dated September 5, 1973, as amended by PD Nos. 346 and 696, dated December 14, 1973 and May 9, 1975, respectively. PADC was under the supervision of the Department of Transportation (DOTr) since the time it was created. However, on March 15, 2019, by virtue of Executive Order No. 78, the supervision of PADC was transferred to the Department of National Defense (DND).

The Corporation is mandated to undertake all manner of activity, business or development projects for the establishment of a reliable aviation and aerospace industry that shall include (a) the design, assembly, manufacture, and sale of all forms of aircraft and aviation/aerospace devices, equipment or contraptions and studies or researches for innovations and improvements thereon; (b) the development of local capabilities in the maintenance, repair/overhaul and modification of aerospace and associated flight and ground equipment and components thereof in order to provide technical services and overhaul support to government agencies owning aerospace equipment, the Philippine Air Force, the national airline, foreign airline companies, foreign air forces and to the aviation industry in general; and (c) the operation and provision of air transport services, whether for cargo or passengers, on a scheduled, non-scheduled, or charter basis on domestic and/or international scale.

The corporate powers and functions of PADC are vested in and exercised by a Board of Directors composed of nine members, headed by the Secretary of National Defense Delfin N. Lorenzana as Chairman with Atty. Raymond L. Mitra as Acting President/Chief Executive Officer of the Corporation.

PADC has 38 permanent employees as of December 31, 2021.

### FINANCIAL HIGHLIGHTS

#### Comparative Financial Position

	2021	2020 (As restated)	Increase (Decrease)
Assets	207,541,765	198,278,385	9,263,380
Liabilities	112,735,977	116,095,487	(3,359,510)
Equity	94,805,788	82,182,898	12,622,890

## Comparative Results of Operations

	2021	2020	Increase (Decrease)
Income	54,291,745	60,543,689	(6,251,944)
Expenses	38,241,368	42,456,772	(4,215,404)
Net Income Before Tax	16,050,377	18,086,917	(2,036,540)
Income Tax Expense	3,427,487	3,630,278	(202,791)
Net Income	12,622,890	14,456,639	(1,833,749)

## SCOPE AND OBJECTIVES OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and transactions of PADC for the period January 1 to December 31, 2021 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2021 and 2020. Also, we conducted our audits to assess compliance with pertinent laws, rules and regulations as well as adherence to prescribed policies and procedures.

## INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

We rendered 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 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.

## **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.

## **SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES**

As of December 31, 2021, total audit disallowances amounted to P2.234 million. On the other hand, the balance of audit charges amounted to P9.260 million. Details are presented in Part II of this Report.

## **STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

Of the 18 audit recommendations embodied in the 2020 Annual Audit Report, five were implemented, 10 were partially implemented and three were not implemented. Details are presented in Part III of this Report.