



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Philippine Aerospace Development Corporation
General Aviation Area, Domestic Road
Pasay City

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine Aerospace Development Corporation, which comprise the statements of financial position as of December 31, 2016 and 2015, statements of profit or loss, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles generally accepted in the Philippines, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

Aircraft inventories which are considered worthless because these could no longer be installed to aircrafts or be sold to clients for lack of authenticating documents from respective manufacturers are still presented at their historical costs of P40.919 million for both 2016 and 2015, instead of at their net realizable values, thereby overstating inventory and understating expenses by P17.355 million.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly the financial position of the Philippine Aerospace Development Corporation as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with state accounting principles generally accepted in the Philippines.

Emphasis of Matter

We draw attention to Note 18 to the financial statements describing the tax assessments issued by the Bureau of Internal Revenue for the Corporation's tax deficiencies for the years 1999, 2003, 2004 and 2008 totaling P90.508 million. The ultimate outcome of these assessments could not presently be determined and no provision for any liability that may arise therefrom has been made in the financial statements. Our opinion is not qualified in respect of this matter.

**Report on Supplementary Information Required Under
BIR Revenue Regulations 15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 19 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of Management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, because of the significance of the matter disclosed in the auditor's report, it is inappropriate to, and we do not express an opinion on the supplementary information.

COMMISSION ON AUDIT


JOSE DENNIS G. ISIP
Supervising Auditor

April 17, 2017