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. As an agency tasked to advance aviation-related transport services, the Department of Transportation (DOTr) exercises supervision over the Corporation's policy formulation.

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.

Commodore Gilbert S. Rueras (Retired) was the President and Chief Executive Officer of the PADC until his suspension/separation from service on September 3, 2018. He was replaced by Undersecretary Manuel Antonio L. Tamayo of the DOTr as Officer-In-Charge. Effective February 1, 2019, Atty Steve Victor R. Siclot assumed office as the newly designated President and Chief Executive Officer (CEO) of the Corporation.

PADC has a personnel complement of 45 including the President/CEO and has a Corporate Operating Budget (COB) of P81.1 million for CY 2018.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

	2018	2017	Increase (Decrease)
Assets	189,245,313	158,235,097	31,010,216
Liabilities	65,940,527	47,289,473	18,651,054
Equity	123,304,786	110,945,624	12,359,162

Comparative Results of Operation

	2018	2017 (As restated)	Increase (Decrease)
Revenue	53,305,024	46,961,463	6,343,561
Expenses	31,338,922	36,352,398	(5,013,476)
Net Income Before Tax	21,966,102	10,609,065	11,357,037
Income tax expense	4,935,460	1,959,448	2,976,012
Net Income	17,030,642	8,649,617	8,381,025

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, 2018 in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of PADC's financial statements for the years ended December 31, 2018 and 2017. Also, we conducted our audit 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 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.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following are the other significant audit observations and recommendations:

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.

   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.

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2018, total audit disallowances amounted to P7,372,528.48. Of this amount, P5,041,956.18 are currently under appeal. On the other hand, the balance of charges amounted to P9,259,741.45.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 20 audit recommendations embodied in the 2017 Management Letter, 11 were implemented, one partially implemented and eight were not implemented. Details are presented in the Part III of this report.