



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

## **INDEPENDENT AUDITOR'S REPORT**

### **THE BOARD OF DIRECTORS**

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

### ***Report on the Audit of the Financial Statements***

#### **Adverse Opinion**

We have audited the financial statements of Philippine Aerospace Development Corporation (PADC), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the *Bases for Adverse Opinion* paragraph, the accompanying financial statements do not present fairly the financial position of PADC as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

#### **Bases for Adverse Opinion**

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. The provision for impairment of P5.487 million since 2013 did not consider that the longer the period, the higher the probability of default. Management

also has no available data which accounts or group of accounts was provided with allowance for impairment. 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 (OGCC) on the matter.

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of PADC in accordance with the Code of Ethics for Government Auditors (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS for SMEs, 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.

In preparing the financial statements, management is responsible for assessing PADC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate PADC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing PADC's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 PADC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### ***Report on Other Legal and Regulatory Requirements***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 29 to the financial statements is presented for the purpose 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. Because of the significance of the matters described in the *Bases for Adverse Opinion* paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

#### **COMMISSION ON AUDIT**

  
**CECILIA N. CHAN**  
Supervising Auditor

April 8, 2022