



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 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, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the *Basis for Adverse Opinion* paragraph, the accompanying financial statements do not present fairly the financial position of PADC as at December 31, 2018 and 2017, 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).

Basis for Adverse Opinion

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.

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.

Emphasis of Matter

We draw attention to Note 21 of 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 be presently determined and no provision for any liability that may arise therefrom has been made in the financial statements. Our opinion is not modified in respect of this matter.

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 PFRSs 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.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on PADC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause PADC to cease to continue as a going concern.
- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all the relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 28 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 matter described in the *Basis 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


ELSA T. BALINA
 OIC – Supervising Auditor

May 2, 2019