OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. 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.

Furthermore, 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.

1.1. Philippine Accounting Standard (PAS) No. 2, paragraph 9 requires that *inventories shall be measured at lower of cost or net realizable value (NRV)*.

1.2. In addition, PAS 2, paragraph 28, provides that *the cost of inventories may not be recoverable if those inventories are damaged, if they become wholly or partially damaged, if they have become wholly or partially obsolete, or if their selling prices declined. The practice of writing inventories down below cost to net realizable value is consistent with the view that assets should not be carried in excess of amount expected to be realized from their sale or use.*

1.3. The Merchandise Inventory of PADC costing P68.546 million, with a carrying value of P44.983 million as of December 31, 2021 are as follows:

Table 1 – Merchandise Inventory

	Amount
Beginning Balance, January 1, 2021	68,793,045
Add: Purchases/additions during the year	140,626
Total	68,933,671
Less: Issuances/withdrawals during the year	(387,336)
Ending Balance, December 31, 2021	68,546,335
Less: Allowance for obsolescence	(23,563,740)
Carrying Value	**44,982,595**

1.4. The Allowance for Obsolescence on inventories remained at P23.564 million since CY 1991. As of December 31, 2021, no additional provision for Allowance for Obsolescence or write-down was recognized.

1.5. In CY 2015, the Inventory Team of PADC identified and reported aircraft parts costing P40.919 million as obsolete/unserviceable/condemned. However, it appears that Management was not convinced on the report of the Inventory Team, thus, the said P40.919 million aircraft parts was not recognized as an additional Allowance for Obsolescence.

1.6. In CY 2021 audit, inquiry disclosed that Management completed the inventory count with the assistance of the Philippine Air Force (PAF) personnel, however, no Report on Physical Count of Inventories for CY 2021 was submitted to the Audit Team.

1.7. Likewise, the determination whether the inventory is not carried in excess of amounts expected to be realized from their sale or use was not completed/performed. PADC is still in the process of costing the spare parts with no traceability.

1.8. Because of the non-submission of inventory report showing the reconciled quantity and amount of the inventories per stock cards, per count and per books of accounts, the Audit Team was not able to determine the existence of Merchandise Inventory account balance of P68.546 million.

1.9. Likewise, the correctness of the inventories' carrying value of P44.983 million as of December 31, 2021 was not ascertained due to non-writing down of inventory cost to net realizable value.

1.10. **We reiterated our previous years' recommendations that Management:**

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 NRV;

c. Submit to the Audit Team the Report on Physical Count of Inventories as required under Section 122 of Presidential Decree (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.

1.11. The inventory-taking was completed in April 2021 with the assistance of the PAF and the complete list of said inventories is available and ready for submission, however, these were not prepared based on the required COA form due to non-availability of documents that can be used to complete the costing of the same.

1.12. Management is having difficulty in determining the actual status/conditions of the spare parts and declaring it as obsolete/unserviceable or condemned because of its non-traceability.

1.13. In its Management Committee meeting, it was recommended that the Quality Assurance Department will draft and design related procedures on addressing such in order to come up with the correct condition of spare parts inventory that will help Management to decide on what items are to be discarded.

1.14. Further, Management had already considered hiring a third-party appraiser in 2014, however, the then Audit Team Leader did not agree on the idea because of price reasonableness issues.

1.15. PADC Management is of the opinion that the on-going negotiations with the Aircraft Manufacturer, will address the problem.

1.16. Management's comments are duly noted. The Audit Team will monitor PADC's compliance with the recommendations.

2. The balance of Property and Equipment (PE) account amounting to P86.559 million, with carrying value of P10.629 million may not be a faithful representation because their existence could not be validated due to incomplete inventory taking.

2.1 Section 6.2.10 of COA Circular No. 2020-006[1], requires that *upon completion of the physical count, the Inventory Committee* *__shall prepare the RPCPPE using the prescribed format__* *under the GAM.* The Report on Physical Count of PPE (RPCPPE) is the form used in the physical count of PPE by type such as land, land improvements, infrastructure, building and other structures, machinery and equipment, furniture, fixtures and books, etc. which are owned by the Agency. It shall be prepared yearly, and the deadline for submission to the Audit Team is every January 31 of each year pursuant to COA Circular No. 80-124 dated January 18, 1980.

2.2 The Corporation presented PE costing P86.559 million, with a net carrying value of P10.629 million, as follows:

Table 2 – Property and Equipment

Description	Cost	Accumulated Depreciation	Carrying Value
Buildings	13,747,370*	13,279,924	467,446
Office Equipment	12,442,564	10,792,393	1,650,171
Information and Technology Equipment	858,177	678,319	179,858
Communication Equipment	494,747	445,273	49,474
Other Machinery and Equipment	41,871,515	36,919,370	4,952,145
Motor Vehicles	8,334,904	5,935,592	2,399,312
Aircraft and Aircraft Ground Equipment	8,640,879	7,776,791	864,088
Furniture and Fixtures	56,000	0	56,000
Books	112,382	101,411	10,971
Total as of December 31, 2021	**86,558,538**	**75,929,073**	**10,629,465**

*Net of P13,979,087 presented as Investment Property.

[1] Prescribes the guidelines and procedures to assist government agencies in coming up with reliable property, plant and equipment balances that are verifiable as to existence, condition and accountability. Government-Owned or Controlled Corporations are among those covered by the Circular.

2.3 A properly filled up RPCPPE shall show among others the, *Quantity per Property Card; Quantity per Physical Count; Shortage/Overage; and Remarks, such as the whereabouts, conditions and other relevant information relative to the PPE*.

2.4 Our audit revealed that inventory count was made on September 21, 2020 until December 15, 2020. However, for CYs 2021 and 2020, RPCPPE was not prepared and submitted by the Inventory Committee to the Audit Team.

2.5 The non-submission of RPCPPE showing the quantity per Property Card and per Physical Count prevented the determination of the total value of PE counted and their condition.

2.6 We observed that the latest RPCPPE as of December 31, 2019[2], disclosed a variance of P24.908 million between the cost per books of accounts and per count, and this variance has not been reconciled as of December 31, 2021, as follows:

Table 3 –Comparison of PE per Books and 2019 RPCPPE

Description	Per books	Per Count	Variance	Remarks
Buildings-Total	27,597,260*	27,770,510	173,250	Includes P13.850 million presented as Investment Property-Buildings
Office Equipment	12,499,586	4,603,896	7,895,690	No details of PPE purchased prior to CY 2012
Information and Technology Equipment	625,168	1,510,068	884,900	No details of PPE purchased prior to CY 2012; the count includes the 5 desktop computers booked as expense in 2019
Communication Equipment	494,747	0	494,747	No details of PPE purchased prior to CY 2012
Other Machinery and Equipment	41,893,690	48,150,571	6,256,881	No details of PPE purchased prior to CY 2012
Motor Vehicles	5,587,224	6,015,875	428,651	No details of PPE purchased prior to CY 2012
Aircraft and Aircraft Ground Equipment	8,640,880	0	8,640,880	No details of PPE purchased prior to CY 2012
Furniture and Fixtures	56,000	0	56,000	No details of PPE purchased prior to CY 2012
Books	112,382	35,627	76,755	No details of PPE purchased prior to CY 2012
Total as of December 31, 2019	**97,506,937**	**88,086,547**	**24,907,754***	

*Absolute amount, without offsetting the negative and positive variances.

[2] The Latest RPCPPE submitted in July 2020 to the Audit Team is as of December 31, 2019, but without the reconciliation of balances per books and per count.

2.7 It was noted in CY 2020 audit that the list of properties in the lapsing schedule[3] did not include properties which were acquired prior to CY 2012. Inquiry with the Accounting Department disclosed that there was no proper turnover of files from the previous Accountant. The revised lapsing schedule has yet to be submitted.

2.8 The variance of P24.908 million constitutes 25.54 per cent of P97.507 million total cost of PE inclusive of Investment Property-Building, while the carrying value of PE of P10.629 million per Table 2 is 5.12 per cent of PADC's reported total assets of P207.542 million.

2.9 **We recommended that Management:**

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.

2.10 Management commented that the Comptroller/Accounting Department informed the Logistics Department to comply with the provisions of COA Circular No. 2020-006.

2.11 The Logistics Department recommended to the Acting President and CEO the creation of Inventory Team in compliance with COA Circular 2020-006, and to complete the transfer of the PE counted to the prescribed format of RPCPPE.

2.12 Management's comments are duly noted. The Audit Team will monitor PADC's compliance with the recommendations.

3. Receivables totaling P46.827 million were not assessed to determine current/updated evidence of impairment as required under Philippine Financial Reporting Standard (PFRS) 9, thus, the amortized cost of P41.340 million could be more than its recoverable amount.

3.1 Paragraph 5.2.1 of PFRS 9 provides that after initial recognition, financial instrument (which includes accounts receivables) shall be measured at amortized cost.

3.2 Furthermore, paragraph 5.5.9 of PFRS 9 provides that at each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition.

[3] A lapsing schedule is a spreadsheet that lists the purchase date, depreciation, and other accounting actions related to a fixed asset. The intent of the schedule is to show the rate at which the book value of a fixed asset declines over time

3.3 As of December 31, 2021, the Corporation reported its Receivables, net of allowance for impairment/bad debts, amounting to P41.340 million, as follows:

Table 4 - Breakdown of Receivables

Classification	Amount 2021	Amount 2020	Increase/ (Decrease)
Accounts Receivables	32,422,001	32,433,128	(11,127)
Operating Lease Receivables	12,821,403	29,130,009	(16,308,606)
Other Receivables	1,584,035	1,616,363	(32,328)
	46,827,439	63,179,500	(16,352,061)
Allowance for Impairment	(5,487,079)	(5,487,079)	0
	41,340,360	57,692,421	(16,352,061)

3.4 In Note 5 to the financial statements, Management disclosed the following relative to the above accounts:

- *Accounts Receivables (AR)* represents accounts arising from service parts, labor and over-the-counter sales due from various customers.

- *Operating Lease Receivables* represents hangarage and rental of office spaces.

- *Other Receivables* consists of share in water and electricity bills of various tenants of the Corporation.

3.5 In CY 2020 audit, the Audit Team noted that the latest transaction relating to the P5.487 million allowance for impairment was made in December 2013, and several events occurred from CY 2013 to 2020 which may have resulted in overvaluation of receivables, or amortized cost exceeding the recoverable amount.

3.6 As of reporting date, the allowance for impairment remained at P5.487 million. Though there was a significant decrease in the balance of Operating Lease Receivables, per Table 4, because of payment by Cebu Pacific in CY 2021, majority of PADC's receivable accounts are still past due, as shown below:

Table 5 - Aging of Receivables

Age	Amount	Percentage	Remarks
Current	4,764,636	10.19%	
61-90 days	4,778,672	10.23%	overdue
Over 90 days	539,577	1.15%	overdue
1-2 years	16,685,452	35.70%	overdue
3-5 years	5,897,787	12.62%	overdue
Over 5 years	14,071,678	30.11%	overdue
	46,737,802	**100.00%**	

*based on Aging of Receivables provided by Management, with noted discrepancy of P89,638 between the balance per books of P46.827 million (presented in Table 4) and per subsidiary ledgers.

3.7 The credit *risk increased significantly when the contractual payments are more than 30 days past due*[4]. 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.

3.8 Included in the "*over 5 years*" group of accounts is a receivable from Philippine National Police (PNP) totaling P13.051 million. Of this amount, P13.046 million pertains to the first transaction of PADC with PNP in CY 2016. PNP, is a government office, but the settlement of the account may depend on the availability of funds of the PNP based on its yearly approved budget.

3.9 As a result of the non-assessment of collectability of receivables, Management's assertion that the valuation of its receivables at P39.580 million (at amortized cost), complies with PFRS 9, could not be relied upon. The amortized cost of AR amounting to P39.580 million maybe more than its recoverable amount.

3.10 **We recommended that Management:**

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 PNP to request for the settlement of their unpaid accounts.

3.11 PADC Management commented that it requested the Treasury Department to conduct an analysis of historical trends that can provide useful information in estimating allowance for doubtful accounts. This will be helpful in determining the amount that will be presented to the Board of Directors for their approval.

3.12 Also, Management informed the Audit Team that the Comptroller Department will update the policy on receivables and will include policy on impairment loss.

3.13 Regarding the receivables from PNP, Management commented that on December 3, 2019, Department of National Defense (DND) Secretary Delfin N. Lorenzana wrote a letter to the Department of the Interior and Local Government (DILG) Secretary Eduardo M. Año requesting assistance in facilitating the full settlement of P13.046 million. As per DILG, they have forwarded the letter to the Chief PNP for their appropriate action. Several

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[4]From paragraph 5.5.11 of PFRS 9

follow ups have been made but Management has not received any reply from PNP.

3.14 Due to changes in PNP's leadership, there is a need to apprise the new PNP Chief the details of the account. PADC Management has already instructed the personnel-in-charge of this account to do the same and make another follow-up.

3.15 Management's comments are duly noted. However, based on the results of confirmation, the receivable from PNP amounting to P13.051 million was not acknowledged by them, hence, the non-collectability of the account for more than five years. During the exit conference held on April 8, 2022, Management was advised to clarify with the Accountant of the PNP the non-recognition of the account in view of PADC's assertion that PNP is aware of this account based on their previous correspondences.

4. The balance of Accounts Payable – Trade of P1.932 million as of December 31, 2021 is doubtful because of the non-recognition of unpaid accounts due to the Manila International Airport Authority (MIAA) amounting to P7.295 million.

4.1 *Under the Conceptual Framework for Financial Reporting, Liability is defined as a present obligation of the entity to transfer an economic resource as a result of past events.*

4.2 As of December 31, 2021, the Corporation reported Accounts Payable - Trade amounting to P1.932 million which consists mainly of *unpaid utilities expenses and security services*[5].

4.3 The amount does not include the bills for unpaid rental of PADC, including VAT and interest totaling P7.295 million based on the Statement of Account (SOA) from the MIAA as of December 31, 2021, summarized as follows:

Table 6 – MIAA billings to PADC for Unpaid rental, exclusive of disputed accounts

	Principal/ Rental	E-VAT	Interest	Total
Rental, December 2021 based on old rate	27,068	3,248	136	30,452
Additional rental effective June 16, 2019 to December 31, 2021	6,421,700	770,604	99,416	7,291,720
Total	6,448,768	773,852	99,552	7,322,172
Recorded per JEV Nos. 21-10-GJ0001 to 21-12-GJ0001	(27,068)	0	0	(27,068)
Not recorded	**6,421,700**	**773,852**	**99,552**	**7,295,104**

[5] Per Note 14 to the financial statements

4.4 Of the P7.295 million, per Table 6, P6.422 million pertains to MIAA's 30 per cent share from Airbus Helicopters Philippines, Inc. (AHPI) monthly rental pursuant to MIAA's Board Resolution (BR) No. 2017-069 as affirmed under BR No. 2019-030, plus 12 per cent VAT and interest amounting to P0.771 million and P99,416, respectively.

4.5 AHPI is a sub-lessee of PADC at Hangar 2, General Aviation Area, with monthly rental rates of P0.768 million from June 16, 2019 to December 2019, and P0.791 million effective January 2020 as gathered from MIAA Billing Instruction dated August 31, 2021.

4.6 The lease agreement entered by and between PADC and AHPI dated December 16, 2019 provides that *any other fees and/or charges, which MIAA may impose during the effectivity of the Agreement, arising from AHPI's lease of PADC Hangar 2 shall also be borne by AHPI.*

4.7 The non-recognition of liabilities totaling P7.295 million, exclusive of disputed accounts, will result in *understatement of liabilities* by P7.295 million, *understatement of rental/interest expenses/retained earnings and input tax* presented in the financial statements by P6.521 million and P0.774 million, respectively and the reported income for CY 2021 of P12.623 million would only be P10.061 million because of the unbooked rental and interest expenses in CY 2021 amounting to P2.523 million and P39,114, respectively.

4.8 **In view of the foregoing, we recommended that Management:**

a. **Recognize in the books of accounts the correct amount of liability to MIAA and other affected accounts; and**

b. **Make representation with 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.**

4.9 Management explained that MIAA's 30 per cent share from AHPI has been referred to the Office of the Government Corporate Counsel (OGCC) for clarification and legal opinion.

4.10 MIAA and PADC being counterparties to the transactions are supposed to arrive at the same balances of receivables and payables, respectively. Thus, our recommendations remain.

5. Of the P11.245 million receivables from Cebu Pacific, only P5.151 million was confirmed by the latter, thus the existence of P6.094 million accounts was not established.

5.1 Based on the records of PADC, it has P11.245 million receivables from Cebu Pacific. However, upon confirmation with Cebu Pacific, only P5.151 million was confirmed, per details on the succeeding page:

Table 7 – Variance per Book and per Confirmation Reply

Inv. No.	Date	Particulars	Balance	Remarks
1278	18-Aug-20	Inside Hangarage 04 March to 06 July 2020	1,522,500	*Confirmed as P1,495,312.50 per confirmation reply from Cebu Pacific*
1369	13-Oct-21	Rental of H1 15 October 2021 to 14 Nov 2021	3,644,541	*Check already released, Nov. 12, 2021 per confirmation reply from Cebu Pacific*
1382	6-Dec-21	Rental of H1 15 Dec to 14 Jan 2022	3,826,768	*Confirmed as P3,655,930.57; Paid under OR No. 18282 dated February 9, 2022*
Sub-total rentals			8,993,809	
CY 2020 Various Invoices	CY 2020 Various dates	Creditable Withholding Taxes (CWT)	1,576,737	*No feedback on this per confirmation reply from Cebu Pacific*
CY 2021 Various Invoices	CY 2021 Various dates	CWT	674,509	*No feedback on this per confirmation reply from Cebu Pacific*
Sub-total, AR balance for unsettled withholding taxes			2,251,246	
Total per Books			11,245,055	
Per Confirmation Reply			5,151,243	
Variance			6,093,812	

5.2 CWT, per Table 7, pertains to the tax which was withheld by Cebu Pacific from their payment for rental.

5.3 Per inquiry with the Accounting personnel of PADC, the supporting withholding tax certificate (BIR form 2307) is yet to be claimed by the PADC from Cebu Pacific. Consequently, the portion of receivables amounting to P2.251 million is not yet derecognized.

5.4 **We recommended that Management:**

a. **Reconcile accounting records with the records of Cebu Pacific and determine the correct amount of receivables from Cebu Pacific as of December 31, 2021, and make adjustments, if necessary; and**

b. **Secure BIR Form 2307 from Cebu Pacific on a timely basis or simultaneously with the income payment, so that the related Receivables may be derecognized on a timely basis.**

5.5 Management commented that through the Treasury Department, they sent an email to Cebu Pacific requesting reconciliation on the unpaid accounts.

5.6 The Audit Team will monitor the result of such reconciliation.

6. The Trust Liabilities account balance as of December 31, 2021 and 2020 amounting to P6.891 million, include P1.458 million deposits prior to 2012 by lessees who are no longer doing business with PADC, and P0.961 million settlement of disallowances per COA Notices of Disallowance (ND) hence, the sum of P2.419 million may not be valid obligations/liabilities of PADC.

6.1 The Trust Liabilities of PADC as of December 31, 2021 amounted to P6.891 million, P5.930 million of which pertains to deposits made by airline companies and various tenants in connection with the lease of PADC hangars. Of the P5.930 million, P1.458 million or 24.59 per cent pertains to deposits made prior to 2012 by lessees who are already inactive or no longer doing business with PADC. Further, Trust Liabilities amounting to P0.961 million pertains to withheld salaries and wages, representation and transportation allowance of employees and officers of PADC with COA Orders of Execution (COE)[6].

6.2 The Audit Team mentioned in the CY 2020 Annual Audit Report (AAR) that deposit is required under the lease agreement to guarantee the payment or performance of the lessees' obligations under the agreement, including but not limited to the rentals due, penalty, damage to the leased premises and cost of restoration of the leased premises to its original condition. Considering that PADC should have returned the balance of these deposits, if any, after recovering its claim for damages from those lessees, the recognition thereof as liabilities may overstate the liabilities recognized by the Corporation.

6.3 Management, however, has yet to act on the recommendations related to this observation, thus, as of December 31, 2021 the amount remained the same.

6.4 In CY 2021 audit, Management informed the Audit Team that the Comptroller Department have determined the reference numbers of five (5) out of the eleven (11) listed customers' deposit prior to 2012. Hence, the reconciliation and validation will be much easier. A confirmation letter shall be forwarded to the customers for validation of the amounts recognized as their deposits and to determine if the customers businesses are still existing. The necessary adjustments or derecognition shall be provided to the Audit Team's office upon completion.

6.5 Regarding the P0.961 million Trust Liabilities, Management commented that the Comptroller Department sent an emailed letter dated March 26, 2018 to Prosecution and Litigation Office (PLO), Legal Service Sector (LSS) requesting clarification on whether the withheld salaries of PADC employees in compliance with COE will be immediately applied as payment for the disallowances or to be held in trust pending resolution by the COA on their request for suspension of the implementation of the COE and/or appeals for exclusion from liability.

6.6 Management also quoted the reply of LSS on January 14, 2019, *that the PLO opined that the amount withheld before the suspension of implementation of the* <u>*said COE*</u> *should be held in trust and should neither be released to them nor applied to their liability pending resolution of their appeals/request for exclusion of liability.*

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[6] Note 18 to the financial statements

6.7 The LSS concurs with the PLO's view that the amount withheld from the persons liable should be held in trust pending litigation of the case. This is in consonance with the Supreme Court's ruling in Encarnacion E. Santiago vs COA wherein its dispositive portion reads:

> *WHEREFORE, it is hereby clarified that respondent COA is authorized to withhold petitioner's salary and other emoluments up to the amount of her alleged shortage, but not apply the withheld amount to the alleged shortage for which her liability is still being litigated.*

6.8 With regard to Management's comment, it is opined that after the lapse of more than ten years from the recognition of the liability accounts and no claimants surfaced to claim the deposits, and since only six of the 11 customer's deposits were identified, the *derecognition of the six dormant and unidentified Customer's Deposit Payable accounts is recommended*.

6.9 On the other hand, the Audit Team sustains that the amount that could be presented as Trust Liabilities as of December 31, 2021 should correspond to the settlement by the Ms. Aguinaldo and Mr. Suba only, considering that the reply from the LSS which reads as: *"the PLO's Memorandum dated December 27, 2018 informed that the implementation of COE No. 2017-013 dated March 30, 2017, with respect to Ms. Corazon Aguinaldo was suspended by the Commission Proper in its meeting dated December 20, 2017, and by PLO's letter dated March 30, 2017 with respect to Mr. Antonio Suba in view of their pending appeals before the Commission. The PLO likewise opined that the amount withheld from Ms. Aguinaldo and Mr. Suba before the suspension of the implementation of the said COE should be held in trust and should neither be released to them nor applied to their liability pending resolution of their appeals/request for exclusion of liability."*

6.10 **We recommended that Management:**

a. Derecognize the balance of Customers' Deposit Payable covering CY 2012 and prior years;

b. Apply the P0.961 million portions of trust liabilities as settlement of the related NDs, except for the settlement of Ms. Aguinaldo and Mr. Suba, while their appeals are still pending for resolution; and

c. Submit the breakdown of P0.961 million trust liabilities, showing the payors and the covering NDs/COEs to properly account for those Trust Liabilities that may be finally treated as settlement of NDs/COEs and for derecognition as Trust Liabilities.

7. 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.

7.1 Paragraph 25 of Philippine Accounting Standard (PAS) 1 provides that:

> *"When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, **those uncertainties shall be disclosed**. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern." (underscoring supplied)*

7.2 In Note 3 to the financial statements, Management disclosed the results of its assessment on PADC's ability to continue as a going concern which is quoted as follows:

> *"Going concern*
> *The Corporation's management has made an assessment of the Corporation's ability to continue as a going concern and is satisfied that the Corporation has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Corporation's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis."*

7.3 Relative to our assessment in CYs 2021 and 2020, the following events or conditions were noted for Management's consideration that may cast doubts on the ability of PADC to continue the Going Concern Assumption:

a. Accumulated deficit

a.1 The Stockholders' Equity section of Statement of Financial Position showed a deficit balance. Presented below is the accumulated deficit for the years 2021 and 2020.

	2021	2020
Accumulated Deficit	(P162,861,612)	(P175,484,502)

a.2 It was noted that there were transactions *not recognized* by the Corporation that would further increase its accumulated deficit:

i. Write-down of inventories to adjust the valuation of merchandise inventory to net realizable value;

ii. Expected credit loss on receivables. The last transaction pertaining to provision for allowance for uncollectability was made in December 2013; and

iii. Liabilities to MIAA for unpaid rentals totaling P7.295 million, inclusive of VAT and interest, covering the period June 2019 to December 2021.

a.3 The deficit is the result of cumulative amount of losses experienced and dividends paid by the Corporation exceeding the cumulative amount of its profits. An accumulated deficit signals that the Corporation is not financially stable and it requires additional funding.

a.4 In last year's audit, Management commented that they definitely agree with the Team's appreciation that PADC's accumulated deficit signals that the Corporation is not financially stable and requires additional funding, and that investors including the NG for that matter, will never invest their money, unless they see viable businesses presented to them. For this reason, Management has *developed a Business Plan and a five-year Road Map to improve PADC's life.*

b. Counterparty credit risk

b.1 The Corporation reported receivables amounting to P41.340 million and P57.692 million in CYs 2021 and 2020, respectively, with the following details:

Table 8 – Receivables

Classification	2021	2020	Increase (Decrease)
Accounts Receivables	32,422,001	32,433,128	(11,127)
Operating Lease Receivables	12,821,403	29,130,009	(16,308,606)
Other Receivables	1,584,035	1,616,363	(32,328)
	46,827,439	63,179,500	(16,352,061)
Allowance for Impairment	(5,487,079)	(5,487,079)	0
	41,340,360	57,692,421	(16,352,061)

b.2 As can be inferred from Table 8, the Accounts Receivable (AR) as of December 31, 2021 decreased by P11,127 only. Of the P32.422 million AR balance, P31.788 million are long outstanding accounts way back 2016-2019, hence there is a high risk that the Corporation may not be able to collect majority of its AR.

c. Loss of major market

c.1 The doubt or uncertainty as to the ability of the Corporation to continue under the Going Concern Assumption started in the late 90s when the revenue generated from the undertaking of projects related to aviation and aerospace industry started to decline.

c.2 Presented below is the summary of the Corporation's financial performance for the last five years:

Table 9 – PADC's Financial Operation

	2021	2020	2019	2018	2017
			In Million Pesos		
Sales Revenue	0.484	3.275	22.154	5.918	0.307
Cost of Sales	0.387	1.885	16.197	2.868	0.123
Gross Income (Loss)	0.097	1.390	5.957	3.050	0.184
Less: Operating Expenses	(37.854)	(40.572)	(40.739)	(30.412)	(35.431)
Loss from Operations	**(37.757)**	**(39.182)**	**(34.782)**	**(27.362)**	**(35.247)**
Add:					
Rental Income	50.963	51.080	46.069	43.448	40.015
Other Income – Net of Other Expenses	2.844	6.188	6.833	5.880	5.841
Net Income Before Tax (NIBT)	16.050	18.086	18.120	21.966	10.609

c.3 It can be gleaned from Table 9 that PADC's continuous operation is sustained primarily by its passive income from rental and not from activity or projects related to the establishment of a reliable aviation or aerospace industry.

c.4 The rental income is generated from the leasing of hangars owned by PADC. These hangars are built in a 29,167.403 square-meter land owned by MIAA being leased by PADC at a very minimal amount of P9,022.68, exclusive of VAT, per month or at P0.28/sq. m. per month on the average. MIAA increased the rental due from PADC from P9,022.68 to P220,855.29, exclusive of VAT per month effective June 16, 2019.

c.5 As of December 31, 2021, unpaid rent of P7.295 million, inclusive of VAT and interest, covering the period June 2019 to December 2021 were not recognized by PADC. It will further increase the operating expenses of PADC by P2.562 million and P3.959 million in CYs 2021 and 2020, respectively, and reduce the reported NIBT to P13.488 million, P15.518 million, and P16.730 million, in CYs 2021, 2020 and 2019, respectively.

d. Significant deterioration in the value of current inventory

d.1 As reported in previous years, the allowance for obsolescence was set-up way back in 1991. No write down was recognized from 1992 to 2021.

d.2 As of December 31, 2021, PADC's reported Allowance for Obsolescence on Inventory/spare parts remained at P23.564 million. Movement of these inventory items is very minimal, indicating that realization of income or revenue from its sale or use may not be feasible.

e. Inability to pay creditors on due dates

e.1 *Rent due to MIAA*

As of December 31, 2021, PADC has unpaid rent covering June 2019 to December 2021 of P7.295 million, inclusive of VAT and interest.

e.2 *Dividends due to NG*

PADC has unpaid dividends due to NG amounting to P31.705 million, excluding the dividend in CY 2021 amounting P5.019 million which will be due on May 15, 2022.

PADC requested for exemption from remitting dividends due to NG from net earnings in DYs 2019 and prior years, however, the DOF did not grant PADC's request. Instead, a staggered payment scheme was recommended by DOF at P15.940 million each year for two years, with due dates on or before December 31, 2021 and December 31, 2022.[7]

On December 28, 2021, PADC remitted the sum of P6.359 million, or 40 per cent of P15.940 million due on December 31, 2021 under the staggered payment scheme. It was noted that the P6.359 million remittance is based on the staggered payment plan proposed anew to the DOF in settlement of the outstanding dividends due to the NG for years 2014 to 2018. The CYs 2019 to 2020 dividends amounting to P7.201 million and P7.360 million, respectively, due last May 15, 2020 and 2021, were also not remitted.

e.3 *Cost of Audit billed by COA*

On April 19, 2021, PADC requested for reprieve in the payment of outstanding obligations for audit services totaling P44.468 million, as well as the billing for November and December 2020 in the amount of P0.566 million.

COA did not also grant PADC's request, and proposed PADC to remit audit fees through instalment, as follows:

- *Monthly billings for the current year, that is, from January 1, 2021 onwards – Payment to be updated. Due date is every 15th of the following month.*

- *<u>Past due accounts amounting to P44.468 million</u> (subject to reconciliation with COA-Accounting Division) – Payment of at least P5 million per annum due on or before the 30th of June every year*

[7] Per letter from the DOF dated September 2, 2020

until fully paid or as soon as the financial situation of PADC improves.[8]

In CY 2021, no payment of audit fees was made by PADC.

7.4 In view of the foregoing, there is a reasonable ground for the Audit Team to believe that there is doubt/uncertainties on PADC's going concern assumption.

7.5 In CY 2020 audit, Management agreed with some of the uncertainties identified by the Audit Team, however, PADC still did not comply with the previous year's recommendations.

7.6 **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 above 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.

7.7 Management commented that:

7.7.1 In the light of the impending expiration of PADC's corporate life on September 3, 2023, the PADC Management made a representation to the Congress for the extension of PADC's life for another 50 years.

7.7.2 The fact that PADC is now attached to the Department of National Defense (DND), it plays a very vital role to the country's national security as it can provide a greater support to Self-Reliant Defense Posture Program (SRDP) geared towards the development of an independent defense system relying on country's capabilities and resources.

7.7.3 The Memorandum of Agreement between PADC and Philippine Air Force (PAF) is technically approved by both parties wherein PAF will commission PADC to facilitate the procurement of their goods and services thru negotiated mode of procurement from another agency of the government allowed under Section 53 paragraph c of RA No. 9184.

[8] Per letter from the COA dated August 9, 2021

7.7.4 Several negotiations and collaborations were made by PADC Management to various foreign and local Maintenance, Repair and Overhaul (MRO) service providers in its aim to further strengthen its capabilities to enable it to fully perform its core functions.

7.8 Further, Management also commented that PADC fulfills a significant role in providing the necessary linkages and solutions to the promotion of higher economic growth with the sustenance support for agricultural and fishery (aquatic) productions, education, health and tourism for strengthened technological skills, through research and development and service provisions, in the various areas of concern.

7.9 Management also added that PADC has already growing potentials with its agreements and cooperation with local and international aviation and aerospace stakeholders to beef up PADC as it aims to strengthen its internal and external controls, organization-wise with its upgraded manpower, capabilities and facilities.

7.10 PADC wishes to be given a chance to assume the role of a leader in the aviation industry. Considering its realistic dedication to the public service, its desire to improve its efficiency in operations and continuing commitment to the defense and development of the nation.

7.11 It is our view that the actions taken by Management, namely: application for PADC's extended life for another 50 years; attachment to the DND and PAF; and collaborations with various MRO service providers, are more on upgrading its performance capability, which are commendable. However, there is lack of plan or detailed actions to counteract or mitigate the specific conditions confronting the going concern issues as raised in the audit observation.

7.12 Thus, our recommendations are reiterated.

8. Unserviceable and condemned properties costing P5.284 million and P221,275, respectively, were not derecognized from the books resulting in the overstatement of the PPE account. Likewise, these properties were not disposed of thus, exposing the properties to further deterioration.

8.1 Paragraph 67 of Philippine Accounting Standard (PAS) 16 provides that *the carrying amount of an item of property plant and equipment shall be derecognized:*

a) On disposal; or

b) When no future economic benefits are expected from its use or disposal.

8.2 In CY 2020 audit, the Audit Team reported that the Corporation has unserviceable and condemned properties amounting to P5.284 million and

P221,275, respectively, as reported in the RPCPPE as of December 31, 2019, as follows:

Table 10 – Condition of PE per 2019 RPCPPE

Particulars	Serviceable	Unserviceable	Reparable	Condemned
Buildings	27,770,510	0	0	0
Office Equipment	3,506,552	1,035,465	10,900	50,979
Information and Technology Equipment	1,196,886	144,500	0	168,682
Tools and Machineries	46,482,809	809,148	857,000	1,614
Motor Vehicles	2,721,327	3,294,548	0	0
Books	34,999	628	0	0
Total as of December 31, 2019	**81,713,083**	**5,284,289**	**867,900**	**221,275**

8.3 It was recommended in previous year to immediately dispose the unserviceable properties or derecognize in the books the properties and related accounts. However, no disposal or derecognition of the unserviceable and condemned PE was made in CY 2021.

8.4 The delay in the disposal of unserviceable and condemned PE exposes these assets to further deterioration. Further, the inclusion thereof in the PE items requires that these items have to be counted and that accounting records, property ledger cards and per count are reconciled, which may have caused the non-submission of the RPCPPE deadline of not later than January 31 every year.

8.5 **We reiterated our previous year's recommendations that Management:**

a. **Derecognize from the books unserviceable and condemned properties pursuant to paragraph 67 of PAS 16; and**

b. **Immediately dispose the unserviceable properties to avoid further deterioration.**

8.6 The Disposal Committee has completed the Inventory of unserviceable properties and due for inspection of the Quality Assurance Department. The report will be forwarded to the Audit Team.

8.7 Management's comment is duly noted. The Audit Team will monitor PADC's compliance with the recommendations.

B. OTHER OBSERVATIONS

9. The Dividends due to the National Government (NG) for Dividend Years (DYs) 2019 to 2020 totaling P14.561 million[9] was not remitted, contrary to Section 5a of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 7656. Likewise, of the P15.940 million dividends due on December 31, 2021, under staggered payment scheme, only P6.359 million was remitted.

9.1 Section 5a of the RIRR dated January 26, 2016 of the said Act provides that *all GOCCs covered by the Rules, regardless of shareholdings, shall annually declare and remit Dividends directly to the National Government in the name of the Treasurer of the Philippines* <u>*on or before 15 May*</u> *of each year, at least fifty percent (50%) of their Net Earnings, as Cash, Stock and/or Property Dividends to the National Government.*

9.2 The dividends due to the NG for DYs 2019 and 2020 were recognized by the Corporation in December 2021 only but were not remitted on the due date of on or before May 15, 2020 and May 15, 2021, respectively.

9.3 Previously, PADC requested for exemption from remitting dividends covering the dividends due from net earnings in DYs 2019 and prior years, however, the Department of Finance (DOF) did not grant PADC's request. Instead, a staggered payment scheme was recommended by DOF at P15.940 million each year for two years, with due dates on or before December 31, 2021 and December 31, 2022.[10]

9.4 On December 28, 2021, PADC remitted the sum of P6.359 million, or 40 per cent of P15.940 million. It was noted that the P6.359 million remittance is based on the staggered payment plan proposed anew to the DOF in settlement of the outstanding dividends due to the NG for years 2014 to 2018, as follows:

Table 11 – Proposed Schedule of Dividend Payment

DY	Net Earnings	Dividend Due	Staggered Payment	Schedule of Payment
2014	7,956,993	3,978,497	6,359,239	Dec 2021
2015	4,761,485	2,380,742		
2016	8,461,102	4,230,551	8,781,729	Dec 2022
2017	9,102,356	4,551,178		
2018	16,861,993	8,430,996	8,430,996	Dec 2023
	47,143,929	**23,571,964**	**23,571,964**	

9.5 In the proposed staggered payment, per Table 11, which is yet to be approved/acted by the DOF, the dividends payable for CYs 2019 to 2021 were not included.

[9] From the net earnings of P14.457 million and P14.538 million, for DYs 2020 and 2019 respectively, the dividends due are P7.360 million and P7.201 million for DYs 2020 and 2019, respectively, or aggregating P14.561 million

[10] Per letter from the DOF dated September 2, 2020

9.6 Considering that there is no basis for the non-payment of dividends for years 2019 to 2020, it is our view that the CYs 2019 to 2020 dividends should be remitted by the PADC within the deadline set under the RIRR of RA No. 7656 of on or before May 15 of each year. Thus, on May 15, 2020 and May 15, 2021 the dividends for CY 2019 and 2020 were already due.

9.7 The non-settlement of the dividends that are already due resulted in the accumulation of liabilities.

9.8 **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 DOF regarding the arrangements on the settlement of unpaid dividends.**

9.9 Management commented that as to the remittance of the dividends due to the NG within the deadline set of May 15 of each year and coordinate with the DOF regarding the arrangements on settlement of unpaid dividends, Management cited Section 7 of the RIRR that a GOCC can request a downward adjustment in dividend rate below the minimum 50 per cent which may be allowed for the following cases: (i) where there is a presence of a deficit as reflected in the GOCC's latest Statement of Equity; (ii) where the GOCC's viability or the purpose for which the GOCC has been established will be impaired by the payment of the required dividends; (iii) where the declaration and remittance of dividends at the minimum regulatory requirements; (iv) for GOCCs governed by Batas Pambansa Bldg. 68, where declaration at the minimum dividend rate exceeds the unrestricted retained earnings of the GOCC. GOCC shall submit their request for downward adjustments to the Secretary of Finance on or before 15 May of each year following the relevant dividend year. The requesting GOCC shall submit the documentary requirements.

9.10 PADC through its letter dated August 9, 2021 had requested for temporary reprieve from the scheduled staggered payment plan provided by the DOF in their letter dated September 2, 2020. PADC remitted the amount of P6.359 million as partial compliance while the request for reprieve is being evaluated by DOF.

9.11 The comments of Management regarding the request for reprieve from payment of dividends is noted. However, it is emphasized that the dividend for DYs 2019-2020, is not included in the said letter-request, thus our recommendation to remit the dividends due on or before May 15 of every year remains, which is applicable for the CY 2019 and 2020 dividends due to NG.

10. Accounts Receivables – Due from Officers and Employees in the total amount of P1.945 million as of December 31, 2021 consists mainly of unliquidated cash advances from those who are no longer connected with PADC, which are for collection.

10.1 In Note 5 to the financial statements, Management disclosed that Receivables-Due from Officers and Employees consist mainly of unliquidated cash advances.

10.2 Our review of the Schedule of Unliquidated Cash Advances disclosed that the long-outstanding cash advances granted to former PADC officers and employees amounted to P1.851 million as of December 31, 2021.

10.3 Included in the account are receivables for telephone bills and miscellaneous expenses of separated PADC employees and return of RATA, year-end bonus and cash gift of a dismissed employee totaling P67,164.

10.4 We noted a variance between the schedules submitted and the reported balance in the financial statements as of December 31, 2021 as follows:

Per book	1,945,443
Per schedule	1,917,686
Variance	27,757

10.5 Inquiry revealed that the latest demand letters sent was on January 15, 2015. For CY 2021, Management disclosed that it will send demand letters to the previous officers and employees, but this time it will forward the matter to Office of the Government Corporate Counsel (OGCC) for appropriate action. Management also mentioned that it has difficulty locating and communicating with the former employees.

10.6 **We recommended that Management:**

a. Initiate appropriate legal action to recover the receivables from previous employees and officers of PADC, if warranted; and

b. Apprise the Audit Team on action taken by OGCC.

10.7 Management confirmed during the exit conference that they will refer the issue to the OGCC.

10.8 The Audit Team advised the Management to evaluate if receivables arising from telephone bills meet the requirements for write-off, and if so, filing of authority to write-off is advised subject to submission of supporting documents.

11. PADC Gender and Development (GAD) Focal Point System (GFPS) prepared and submitted the GAD Plan and Budget (GPB) for CY 2021 to the Audit Team, however, it was not forwarded to Philippine Commission on Women (PCW) for review contrary to Section 7.v of Philippine Commission on Women (PCW), National Economic Development Authority (NEDA) and Department of Budget and Management (DBM) Joint Circular No. 2012-01.

11.1 Section 7.v of PCW, NEDA and DBM Joint Circular No. 2012-01 on the Schedule to be Observed in GAD Planning and Budgeting provides that *January (1 year before the budget year) is the submission of reviewed GPBs and ARs to the PCW.*

11.2 The annual GPB submitted by the PADC-GAD Focal Point System with four (4) gender issues/concerns and a total budget of P300,000 was not submitted to PCW as required in the PCW, NEDA and DBM Joint Circular No. 2012-01. Inquiry disclosed that due to the pandemic, PCW required that submission be done on-line. PADC was not able to comply with the cut-off set for on-line submission due to some priority matters. Thus, the GPB was not submitted to PCW.

11.3 **We reiterated our previous year's recommendation that Management require the GAD Focal Point Person to prepare and submit the annual GPB and AR to PCW in accordance with the guidelines prescribed by PCW-NEDA-DBM Joint Circular No. 2012-01.**

11.4 Management commented that they shall see to it that the GAD Focal Point Person has prepared their Accomplishment Report to be submitted to the PCW.

11.5 Management's comment is duly noted. The Audit Team will monitor PADC's compliance with the recommendation.

12. PADC was not able to prepare and submit to COA the Accomplishment Report (AR) as required by Section V of COA Circular No. 2014-001 dated March 18, 2014. On the other hand, the GFPS implemented one of the gender plan included in their GAD Plan and Budget (GPB) for CY 2021.

12.1 Section V of COA Circular No. 2014-01 dated March 18, 2014 provides that:

> *The Audited agency shall submit a copy of the Annual GPB to the COA Audit Team assigned to the agency within five (5) working days from the receipt of the approved plan from the PCW or their mother or central offices as the case maybe. Likewise, a copy of the corresponding Accomplishment Report shall be furnished the said Audit Team within five (5) working days from the end of January of the preceding year.*

12.2 For CY 2021, PADC was not able to submit its AR to the COA Audit Team as required in the above-quoted provisions of COA Circular No. 2014-01.

12.3 Based on the documents submitted to the Audit Team, the Acting President and CEO of PADC sent a letter last September 24, 2021 to the Chairperson, PCW, requesting for a resource speaker to a webinar on Republic Act (RA) No. 11313: Safe Spaces Act or any other topic related to GAD Program. The aforementioned webinar pushed thru on October 22, 2021 via Zoom.

12.4 Our audit disclosed that PADC paid the amount of P9,000 for the honorarium of the resource speaker under DV No. 2021-10-0295 dated October 21, 2021. It was noted that with the participation of PADC employees in the webinar on Safe Spaces Act, the PADC-GFPS implemented one of the gender plan included in the GPB, however, no AR was submitted to the Audit Team.

12.5 **We reiterated our previous year's recommendation that Management henceforth, submit to the Audit Team a copy of the Corporation's GPB and the corresponding AR as provided in COA Circular No. 2014-001.**

12.6 Management commented that it shall see to it that the GAD Focal Point Person has directed the GAD Technical Working Group the timely preparation and submission of reports as provided in COA Circular No. 2014-001.

12.7 Management's comment is duly noted. The Audit Team will monitor PADC's compliance with the recommendation.

13. Compliance with Tax Laws

Taxes withheld for CY 2021 were recognized and remitted within the prescribed period. December 2021 taxes withheld were remitted in January 2022.

14. Compliance with Rules on Government Mandatory Deductions and Remittances

Statutory deductions for Government Service Insurance System, PhilHealth and Home Development Mutual Fund contributions of PADC employees were withheld and remitted as of December 31, 2021, including government share. December 2021 statutory deductions were remitted in January 2022.

15. Status of Audit Suspensions, Disallowances and Charges

15.1 As of year-end, the status of Notices of Suspension, Disallowance and Charge issued are as follows:

Table 12 – Status of Suspensions, Disallowances and Charges

Audit Action	Beginning Balance January 1, 2021	Issued	Settled/ Adjustment	Ending Balance December 31, 2021
Suspensions	0	0	0	0
Disallowances	2,234,335	0	(1,278)	2,233,057
Charges	9,259,741	0	0	9,259,741
	11,494,076	0	(1,278)	11,492,798