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

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

September 30, 2021

PHILIPPINE AEROSPACE DEVELOPMENT CORPORATION
RECEIVED
05 OCT 2021
OFFICE OF THE PRESIDENT

The Board of Directors
Philippine Aerospace Development Corporation
Hangar 2, General Aviation Area, Domestic Road,
Pasay City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of audit of the accounts and transactions of Philippine Aerospace Development Corporation (PADC) for the years ended December 31, 2020 and 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Year's Audit Recommendations.

The Auditor expressed an adverse opinion on the fairness of presentation of the financial statements due to the following:

The writing of inventories down below cost to net realizable value to ensure that these are not carried in excess of amounts expected to be realized from their sale or use was not observed in the presentation of Merchandise Inventory as required under paragraph 28 of Philippine Accounting Standard (PAS) 2. Also, the existence and completeness of Merchandise Inventory costing P68.793 million, with a carrying value of P45.229 million as of December 31, 2020 was not determined due to incomplete inventory-taking.

The inventory-taking of Property and Equipment (PE) was not completed, as a result, the existence and valuation of PE amounting to P100.458 million, with carrying amount of P12.558 million, was not determined, and the balances of PE per books and per count or Report on the Physical Count of Property, Plant and Equipment (RPCPPE) for CY 2019 and per ledger cards are for reconciliation.

The Receivables totaling P63.179 million were not assessed to determine current/updated evidence of impairment as required under Philippine Financial Reporting Standard 9, thus, the amortized cost of P57.692 million could be more than its recoverable amount.

For the above observations which caused the issuance of adverse opinion, we recommended that Management:

On Merchandise Inventory:

a. Comply with PAS 2, on Inventories, by presenting the valuation of Merchandise Inventory at lower of cost or net realizable value;

b. Require the Inventory Team to complete the inventory-taking process and the Accounting Division to ensure that the balance of Merchandise Inventory per books, per count and per stock cards are reconciled;

c. Submit to the Audit Team the Report on Physical Count of Inventories as required under Section 122 of PD No. 1445; and

d. Consider hiring third party appraiser to come up with the correct inventory valuation and make the necessary adjustments to the inventory account in the books.

On Property and Equipment:

Require the Inventory Team to complete the inventory-taking process, and the Accounting Division to reconcile the balance of PE per books and per count or RPCPPE and per ledger cards.

On Receivables:

Conduct an assessment of receivables 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.

The other significant observations and recommendations are as follows:

1. The Management did not submit/present its assessment on the ability of PADC to continue as a going concern as mandated by Philippine Accounting Standard (PAS) 1 "Presentation of Financial Statements" despite the events or conditions that may cast doubt about the going concern assumption.

   We recommended that Management:

   a. Provide the Audit Team with the assessment of the ability to continue as a going concern, considering the noted uncertainties, and the Management's plan 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 identified areas in the assessment of going concern, in the Notes to Financial Statements.

2. Hangars being leased to other parties were recognized and presented as Property and Equipment (PE) instead of Investment Property resulting in overstatement of PE

account and understatement of Investment Property account by undetermined amount.

We recommended that Management:

a. Determine the value of the hangars for lease and present the same as Investment Property in accordance with the requirements of PAS 40; and

b. Comply with disclosure requirements of PAS 40 on Investment Property.

3. Not all audit disallowances with Notice of Finality of Decision (NFD) as of December 31, 2020 were recognized as receivables in the books of accounts of the Corporation resulting in understatement of Receivables-Disallowances and Retained Earnings accounts by P4.924 million.

   We recommended that Management make the necessary adjustments in the books of accounts to reflect the correct balance of Receivables-Disallowances and Retained Earnings as of December 31, 2020 and enforce collection thereof.

4. PADC did not declare, recognize in its books and remit to the National Government (NG) dividends amounting to P7.360 million and P7.201 million representing dividends for Dividend Years (DYs) 2020 and 2019.

   We recommended that Management recognize in its books the dividends due to NG for DYs 2020 and 2019 in compliance with Republic Act No. 7656 and its implementing rules and regulations.

The audit observations and recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on April 28, 2021, are presented in detail in Part II of this report.

In a letter of even date, we requested the Corporation's Acting President and Chief Executive Officer to take appropriate actions on the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

ELSIELIN C. MASANGCAY
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Senate Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

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. PADC has been under the supervision of the Department of Transportation (DOTr), however, on March 15, 2019, by virtue of Executive Order No. 78, the supervision of PADC was transferred to the Department of National Defense (DND).

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.

The corporate powers and functions of PADC are vested in and exercised by a Board of Directors composed of nine members, headed by the Secretary of National Defense Delfin N. Lorenzana as Chairman with Atty. Raymond L. Mitra as Acting President/Chief Executive Officer of the Corporation.

PADC has 41 permanent employees as of December 31, 2020.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

	2020	2019 (As restated)	Increase (Decrease)
Assets	196,579,689	199,229,568	(2,649,879)
Liabilities	101,509,296	118,615,814	(17,106,518)
Equity	95,070,393	80,613,754	14,456,639

Comparative Results of Operations

	2020	2019 (As restated)	Increase (Decrease)
Revenue	60,543,689	75,055,887	(14,512,198)
Expenses	42,456,772	56,936,073	(14,479,301)
Net Income Before Tax	18,086,917	18,119,814	(32,897)
Income Tax Expense	3,630,278	3,582,170	48,108
Net Income	14,456,639	14,537,644	(81,005)

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, 2020 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2020 and 2019. Also, we conducted our audits 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 because:

The writing of inventories down below cost to net realizable value to ensure that these are not carried in excess of amounts expected to be realized from their sale or use was not observed in the presentation of Merchandise Inventory as required under paragraph 28 of Philippine Accounting Standard (PAS) 2. Also, the existence and completeness of Merchandise Inventory costing P68.793 million, with a carrying value of P45.229 million as of December 31, 2020 was not determined due to incomplete inventory-taking.

The inventory-taking of Property and Equipment (PE) was not completed, as a result, the existence and valuation of PE amounting to P100.458 million, with carrying amount of P12.558 million, was not determined, and the balances of PE per books and per count or Report on the Physical Count of Property, Plant and Equipment (RPCPPE) for CY 2019 and per ledger cards are for reconciliation.

The Receivables totaling P63.179 million were not assessed to determine current/updated evidence of impairment as required under Philippine Financial Reporting Standard 9, thus, the amortized cost of P57.692 million could be more than its recoverable amount.

For the above observations which caused the issuance of adverse opinion, we recommended that Management:

On Merchandise Inventory:

a. Comply with PAS 2, on Inventories, by presenting the valuation of Merchandise Inventory at lower of cost or net realizable value;

b. Require the Inventory Team to complete the inventory-taking process and the Accounting Division to ensure that the balance of Merchandise Inventory per books, per count and per stock cards are reconciled;

c. Submit to the Audit Team the Report on Physical Count of Inventories as required under Section 122 of PD No. 1445; and

d. Consider hiring third party appraiser to come up with the correct inventory valuation and make the necessary adjustments to the inventory account in the books.

On Property and Equipment:

Require the Inventory Team to complete the inventory-taking process, and the Accounting Division to reconcile the balance of PE per books and per count or RPCPPE and per ledger cards.

On Receivables:

Conduct an assessment of receivables 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.

OTHER SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

1. The Management did not submit/present its assessment on the ability of PADC to continue as a going concern as mandated by Philippine Accounting Standard (PAS) 1 "Presentation of Financial Statements" despite the events or conditions that may cast doubt about the going concern assumption.

   We recommended that Management:

   a. Provide the Audit Team with the assessment of the ability to continue as a going concern, considering the noted uncertainties, and the Management's plan 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 identified areas in the assessment of going concern, in the Notes to Financial Statements.

2. Hangars being leased to other parties were recognized and presented as Property and Equipment (PE) instead of Investment Property resulting in overstatement of PE account and understatement of Investment Property account by undetermined amount.

   We recommended that Management:

   a. Determine the value of the hangars for lease and present the same as Investment Property in accordance with the requirements of PAS 40; and

   b. Comply with disclosure requirements of PAS 40 on Investment Property.

3. Not all audit disallowances with Notice of Finality of Decision (NFD) as of December 31, 2020 were recognized as receivables in the books of accounts of the Corporation resulting in understatement of Receivables-Disallowances and Retained Earnings accounts by P4.924 million.

   We recommended that Management make the necessary adjustments in the books of accounts to reflect the correct balance of Receivables-Disallowances and Retained Earnings as of December 31, 2020 and enforce collection thereof.

4. PADC did not declare, recognize in its books and remit to the National Government (NG) dividends amounting to P7.360 million and P7.201 million representing dividends for Dividend Years (DYs) 2020 and 2019.

   We recommended that Management recognize in its books the dividends due to NG for DYs 2020 and 2019 in compliance with Republic Act No. 7656 and its implementing rules and regulations.

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2020, total audit disallowances amounted to P2.234 million. On the other hand, the balance of audit charges amounted to P9.260 million. Details are presented in Part II of this Report.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 13 audit recommendations embodied in the 2019 Management Letter, one was implemented, six were partially implemented and six were not implemented. Details are presented in Part III of this Report.

TABLE OF CONTENTS

PART I

AUDITED FINANCIAL STATEMENTS

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., 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, 2020 and 2019, 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, 2020 and 2019, 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 writing of inventories down below cost to net realizable value to ensure that these are not carried in excess of amounts expected to be realized from their sale or use was not observed in the presentation of Merchandise Inventory as required under paragraph 28, Philippine Accounting Standard (PAS) 2. Also, the existence and completeness of Merchandise Inventory costing P68.793 million, with a carrying value of P45.229 million as of December 31, 2020 was not determined due to incomplete inventory-taking.

The inventory-taking of Property and Equipment (PE) was not completed, as a result, the existence and completeness of PE amounting to P100.458 million, with carrying amount of P12.558 million, was not determined. The balances of PE as of December 31, 2019 per books and per count or Report on the Physical Count of Property, Plant and Equipment for CY 2019 and per ledger cards are for reconciliation. A variance of P24.908 million (absolute amount) between the balances per books and per count was noted.

The Receivables totaling P63.179 million were not assessed to determine current/updated evidence of impairment as required under PFRS 9. The latest transaction relating to provision for allowance for uncollectability of accounts receivables was made in December 2013 amounting to P5.487 million, which stands at only 8.68 per cent of total receivables of P63.179 million. There are events that occurred during CY 2020 which have resulted in overvaluation of receivables or amortized cost exceeding the recoverable amount, such as the material increase in its operating lease receivables by P26.691 million but no allowance for impairment was provided. Thus, the amortized cost of P57.692 million could be more than its recoverable amount.

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's 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

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CECILIA N. CHAN
Acting Supervising Auditor

April 29, 2021

STATEMENT FOR MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of the **PHILIPINE AEROSPACE DEVELOPMENT CORPORATION (PADC)** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 to do so.

The Board of Directors is responsible for overseeing the PADC's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stakeholders and other users.

The Commission on Audit has audited the financial statements of the PADC in accordance with the International Standards of Supreme Audit Institutions, and in its report to the Board of Directors, has expressed its opinion on the fairness of the presentation upon completion of such audit.

SEC. DELFIN N. LORENZANA
Chairman of the Board

DEPARTMENT OF NATIONAL DEFENSE
DNL-215261

RAYMOND L. MITRA
Acting President and CEO

JOSEFA R. CABANGANGAN
OIC, Comptrollership Department

Date: 28 April 2021

P A D C
OFFICE OF THE AUDITOR
Received by: ANTHONY R. COSTELO
07/28/2021 10:28 AM

PHILIPPINE AEROSPACE DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019
(in Philippine Peso)

	Note	2020	2019 (As restated)	January 1, 2019 (As restated)
ASSETS				
Current Assets				
Cash and Cash Equivalents	4	**58,847,679**	51,405,927	70,321,573
Financial Assets	5	**0**	19,891,692	0
Receivables, net	6	**60,641,553**	42,142,800	25,901,092
Inventories, net	7	**45,349,970**	42,800,348	54,753,785
Other Current Assets	8	**5,093,842**	17,729,748	12,716,400
Total Current Assets		**169,933,044**	173,970,515	163,692,850
Non-Current Assets				
Investment in Associate	9	**11,799,153**	11,799,153	11,799,153
Other Investments	10	**61,170**	61,170	61,170
Property and Equipment, net	11	**12,557,561**	11,193,685	10,667,659
Deferred Tax Asset	12	**110,156**	86,440	57,265
Other Non-Current Assets, net	13	**2,118,605**	2,118,605	2,118,605
Total Non-Current Assets		**26,646,645**	25,259,053	24,703,852
TOTAL ASSETS		**196,579,689**	199,229,568	188,396,702
LIABILITIES AND EQUITY				
Current Liabilities				
Financial Liabilities	14	**5,147,043**	4,184,924	9,437,124
Inter-agency Payables	15	**50,398,726**	71,942,327	68,230,959
Unearned Income	16	**3,896,926**	2,398,389	4,542,879
Other Payables	17	**29,040,985**	28,782,110	28,611,641
Total Current Liabilities		**88,483,680**	107,307,750	110,822,603
Non-Current Liabilities				
Trust Liabilities	18	**6,891,273**	6,555,698	6,348,353
Provisions	19	**6,050,781**	4,668,804	5,066,074
Deferred Tax Liabilities	20	**83,562**	83,562	83,562
Total Non-Current Liabilities		**13,025,616**	11,308,064	11,497,989
Equity		**95,070,393**	80,613,754	66,076,110
TOTAL LIABILITIES AND EQUITY		**196,579,689**	199,229,568	188,396,702

The notes on pages 9 to 36 form part of these financial statements.

PHILIPPINE AEROSPACE DEVELOPMENT CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	2020	2019 (As restated)
REVENUE			
Sales	23	**3,275,104**	22,153,970
Cost of Sales	23	**1,884,567**	16,196,962
Gross Profit		**1,390,537**	5,957,008
Rental Income	24	**51,080,056**	46,068,801
Dividend Income		**5,620,200**	5,619,718
Interest Income		**365,791**	275,046
Miscellaneous Income		**0**	291,748
Other Income		**202,538**	646,604
		58,659,122	58,858,925
EXPENSES			
Personnel Services	25	**28,281,262**	29,046,736
Maintenance and Other Operating Expenses	26	**11,402,082**	11,550,207
Finance Expenses	27	**809,807**	44,919
Loss on Foreign Exchange		**79,054**	97,249
		40,572,205	40,739,111
NET INCOME BEFORE TAXES		**18,086,917**	18,119,814
Income Tax Expense		**3,630,278**	3,582,170
COMPREHENSIVE INCOME		**14,456,639**	14,537,644

The notes on pages 9 to 36 form part of these financial statements.

PHILIPPINE AEROSPACE DEVELOPMENT CORPORATION
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2020 and 2019
(in Philippine Peso)

	Note	Retained Earnings (Deficit)	Share Capital	Subscribed Share Capital	Total
Balances, December 31, 2018	21	**(134,362,614)**	**237,667,400**	**20,000,000**	**123,304,786**
Various Adjustments	28	(57,228,676)	0	0	(57,228,676)
Balances, January 1, 2019, as restated		**(191,591,290)**	**237,667,400**	**20,000,000**	**66,076,110**
Changes in Equity in 2019					
Net Income for the Year		14,537,644	0	0	14,537,644
Balances, December 31, 2019		**(177,053,646)**	**237,667,400**	**20,000,000**	**80,613,754**
Changes in Equity in 2020					
Net Income for the Year		14,456,639	0	0	14,456,639
Balances, December 31, 2020		**(162,597,007)**	**237,667,400**	**20,000,000**	**95,070,393**

The notes on pages 9 to 36 form part of these financial statements.

PHILIPPINE AEROSPACE DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers		**10,225,009**	999,288
Cash Received from Tenants		**29,078,489**	54,935,960
Interest Received		**1,478**	458
Other Receipts		**14,511**	63,679
Cash Paid to Employees and Suppliers of Goods/Services		**(27,789,838)**	(42,687,046)
Remittance to Government Agencies and Other Entities		**(5,906,006)**	(8,257,895)
Taxes Paid		**(23,800,808)**	(8,992,519)
Net Cash Used in Operating Activities		**(18,177,165)**	(3,938,075)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Office Equipments		**(215,757)**	(3,993,433)
Investment in Treasury Bills		**20,293,528**	(19,630,139)
Dividends Received		**5,620,200**	5,619,718
Net Cash Provided by (Used in) Investing Activities		**25,697,971**	(18,003,854)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**7,520,806**	(21,941,929)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		**(79,054)**	(97,249)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**51,405,927**	73,445,105
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**58,847,679**	51,405,927

The notes on pages 9 to 36 form part of these financial statements.

1. CORPORATE INFORMATION

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. PADC is under the administrative supervision of the Department of National Defense.

The Corporation shall undertake all manner of activity, business or development projects for the establishment of a reliable aviation and aerospace industry that shall include, but not limited to:

- The design, assembly, manufacture, and sale of all forms of aircraft and aviation/aerospace devices, equipment or contraptions, and studies or researches for innovation and improvement thereon;

- 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

- 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.

The Corporation is governed and its activities are directed, controlled and managed by a Board of Directors.

The PADC's registered office address is located in PADC Hangar 2, General Aviation Area, Domestic Road, Pasay City.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 <u>Presentation of Financial Statements</u>

The financial statements of the Corporation were prepared using the historical cost basis, unless otherwise stated. The financial statements are presented in Philippine Peso, which is the Corporation's functional and presentation currency. All amounts are rounded off to the nearest peso, except when otherwise indicated.

2.2 Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Corporation were prepared in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs). PFRS for SMEs are adopted by the Financial Reporting Standard Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

The financial statements of PADC were issued on April 28, 2021.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Adoption of New and Amended PFRS

a. Effective in 2020 that are relevant to the Corporation

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Corporation adopted effective for annual periods on or after January 1, 2020:

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Material – The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The adoption of the foregoing new and amended PFRS did not have any material effect on the Corporation's financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

b. Effective in 2020 that are not relevant to the Corporation

- Amendments to PFRS 3, *Business Combinations*, Definition of Business – The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The amendment defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs.

- Amendments to PFRS 16, *Leases*, COVID-19-related Rent Concessions – The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021.

c. New and amended PFRS issued but not yet effective

The new and amended PFRS which are not yet effective for the year ended December 31, 2020 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2021:

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, *Insurance Contracts.* It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Business Combinations*, Reference to the Conceptual Framework – Reference to the 1989 Framework in paragraph 11 of PFRS 3 Business Combinations was updated to 2018 Framework. Potential conflicts occur as the definition of assets and liabilities in the 2018 Framework differ from those in the 1989 Framework potentially leading to day 2 gains or losses post-acquisition for some balances recognized.

- Amendments to PAS 16, *Property, Plant and Equipment*, Proceeds Before Intended Use – This amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, Onerous Contracts - Cost of Fulfilling a Contract – The changes specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, Subsidiary as a First-time Adopter – The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRS.

- Amendments to PFRS 9, *Financial Instruments,* Fees in the '10 per cent' Test for Derecognition of Financial Liabilities – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- Amendments to PFRS 16, *Leases*, Lease Incentives –The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- Amendments to PAS 41, *Agriculture,* Taxation in Fair Value Measurements – The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements,* Classification of Liabilities as Current or Non-Current – The amendments affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. Clarify that the classification of liabilities as current or non-current (i) should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of liability, (ii) is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, and (iii) settlement refers to the transfer to the counterparty of cash, equity instruments, and other assets or services.

- Amendments to PFRS 17, *Insurance Contracts* –The main changes resulting from Amendments to PFRS 17 are:

    - Deferral of the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2023 and change the fixed expiry date for the temporary exemption in PFRS 4 Insurance Contracts from applying PFRS 9 Financial Instruments, so that entities would be required to apply PFRS 9 for annual periods beginning on or after January 1, 2023.

    - Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk.

    - Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination.

    - Clarification of the application of PFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.

    - Clarification of the application of contractual service margin attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.

    - Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives.

    - Amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held.

    - Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.

    - Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.

    - Several small amendments regarding minor application issues.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures,* Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Corporation.

3.2 Significant Accounting Judgment and Estimates

The preparation of financial statements in accordance with PFRS for SMEs requires the Corporation to make judgments and estimates that affect the reported amounts of assets, liabilities, income, and expenses, and disclosure relating to contingent assets and contingent liabilities. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances.

a. Judgment

i. 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 upon the Corporation's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

b. Estimates

i. Impairment of trade and other receivables

The Corporation assesses its trade receivables for impairment at each reporting date. As at December 31, 2020 and 2019, the Corporation determined that there is no objective evidence that the amounts are not recoverable. The carrying amounts of trade and other receivables are disclosed in Note 6.

ii. Impairment of non-financial assets

The Corporation assesses impairment on inventories and property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Corporation considers important which could trigger an impairment review include the following:

- Significant or prolonged decline in fair value of the asset;
- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

As at December 31, 2020 and 2019, the carrying values of inventories and property and equipment are disclosed in Notes 7 and 11, respectively.

iii. *Recognition of deferred tax assets*

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that all taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets are not recognized if the temporary difference arises from the initial recognition of assets in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets are measured at the tax rates that are expected to apply in the period in which the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets reflect the tax consequences that would follow from the manner in which Corporation expects, at the end of reporting period, to recover the carrying amount of its assets.

3.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash in bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

3.4 Financial Instruments - Initial Recognition and Subsequent Measurement

i. Date of recognition

A financial asset or liability is recognized only when the Corporation becomes a party to a contractual provision of the instrument.

ii. Initial recognition of financial instruments

All financial assets and financial liabilities are initially measured at fair value, which is normally the transaction price. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Corporation classifies its financial assets in the following categories: financial assets at FVPL, financial assets that are debt instruments at amortized cost, financial assets that are unquoted equity instruments at cost less impairment, and loan commitments at cost less impairment. Financial liabilities are classified into the following categories: financial liabilities at FVPL and financial liabilities at amortized cost.

Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

iii. Financial assets that are debt instruments at amortized cost

This category includes receivables and cash in bank. After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR).

iv. Financial liabilities at amortized cost

This category includes trade and accounts payable, which are not designated as at FVPL and where the substance of the contractual arrangement results in the Corporation having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR.

3.5 Derecognition of Financial Assets and Liabilities

i. Financial asset

A financial asset (or, where applicable a part of a financial asset or group of financial assets) is derecognized only when:

1. The contractual rights to the cash flows from the financial asset have expired or are settled;

2. The Corporation transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

3. The Corporation, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Corporation derecognizes the asset, and recognizes separately any rights and obligations retained or created in the transfer.

   If a transfer does not result in derecognition because the Corporation has retained significant risks and rewards of ownership of the transferred asset, the Corporation continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The asset and liability shall not be offset. In subsequent periods, the Corporation recognizes any income on the transferred asset and any expense incurred on the financial liability.

ii. Financial liability

A financial liability (or part of a financial liability) is derecognized only when it is extinguished (i.e., when the obligation specified in the contract is discharged, is cancelled or expires). When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

3.6 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.7 Impairment of Financial Assets

The Corporation assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows.

For instruments measured at amortized cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original EIR. If such a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR determined under the contract.

For instruments measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the Corporation would receive for the asset if it were to be sold at the reporting date.

If in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Reversal of allowance for impairment losses' in the statement of comprehensive income.

3.8 Inventories

Inventories are stated at the lower of cost and its net realizable value (NRV). Costs of inventories include all costs of purchase and other costs incurred in bringing the inventories to their present location and condition are accounted for, as follows:

i. Raw materials: purchase cost using the weighted average cost method; and

ii. Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

   Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for inventories represent the related replacement costs. Any decrease in inventories arising from impairment is recognized in profit or loss in the statement of comprehensive income.

Impairment of Inventories

At each reporting date, inventories are assessed for impairment, i.e., the amount is not fully recoverable because of damage, obsolescence or declining selling prices. The Corporation measures impairment loss by comparing the carrying amount of each item of inventory with its selling price less cost to sell. If an item of inventory is impaired, its carrying amount is reduced to selling price less cost to sell and an impairment loss is recognized immediately in the statement of comprehensive income.

If an impairment loss subsequently reverses, the carrying amount of inventories is increased to the revised estimate or its recoverable amount but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (or group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive income.

3.9 Prepayments

Prepayments represent expenses not yet incurred but are already paid in cash. These are measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

3.10 Property and Equipment

a. Recognition

An item is recognized as property and equipment (PE) if it meets the characteristics and recognition criteria as a PE.

The characteristics of PE are as follows:

i. Tangible items;
ii. Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
iii. Are expected to be used during more than one reporting period.

An item of PE is recognized as an asset if:

i. It is probable that future economic benefits or service potential associated with the item will flow to the entity;
ii. The cost or fair value of the item can be measured reliably; and
iii. The cost is at least P15,000.00.

b. Measurement at recognition

An item recognized as property and equipment is measured at cost.

A PE acquired through non-exchange transaction is measured at fair value as at the date of acquisition.

The cost of the PE is the cash price equivalent or, for PE acquired through non-exchange transaction, its cost is its fair value as at recognition date.

Cost includes the following:

i. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
ii. Expenditures that is directly attributable to the acquisition of the items; and
iii. Initial estimates of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during particular period for purposes other than to produce inventories during that period.

c. Measurement after recognition

After recognition, all PE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PE are required to be replaced at intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PE as a replacement if the recognition criteria are satisfied.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statement of comprehensive income in the year the asset is derecognized. All other repair and maintenance costs are recognized in the statement of comprehensive income.

d. Depreciation

Each part of an item of PE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

i. Initial recognition of depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

For simplicity and to avoid proportionate computation, the depreciation shall be for one month if the PE is available for use on or before the 15th of the month. However, if the PE is available for use after the 15th of the month, depreciation is for the succeeding month.

ii. *Depreciation method*

The straight-line method of depreciation is adopted unless another method is more appropriate for the Corporation's operation.

iii. *Estimated useful life*

The Corporation uses the life span of PE prescribed by COA in determining the specific estimated useful life for each asset based on its experience.

iv. *Residual value*

The Corporation uses residual value equivalent to at least five per cent (5%) of the cost of the PE.

3.11 Trade and Other Payables

Trade payables are obligations on the basis of normal credit terms and do not bear interest. These are recognized in the period in which the related money, goods, or services are received or when a legally enforceable claim against the Corporation is established or when the corresponding assets or expenses are recognized.

3.12 Capital Stock

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value.

Deficit

Deficit represents the cumulative balance of periodic net income or loss and dividend declarations, if any.

3.13 Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and sales tax. The Corporation is acting as a principal in all its arrangement transactions.

i. *Rendering of services*

The Corporation recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

ii. Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Corporation.

iii. Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

iv. Dividends

Dividends or similar distributions are recognized when the Corporation's right to receive payment is established.

v. Rental income

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and included in revenue.

3.14 Cost and Expense Recognition

Costs and expenses are recognized in the statement of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Costs and expenses are recognized in the statement of comprehensive income:

i. on the basis of a direct association between the costs incurred and the earning of specific items of income;

ii. on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or

iii. Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statements of financial position as an asset.

3.15 Employee Benefits

The employees of the Corporation are members of the Government Service Insurance System, which provides life and retirement insurance coverage.

The Corporation recognizes the undiscounted amount of short-term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

3.16 Income Taxes

i. Current Tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities.

ii. Deferred Tax

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO). Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustment is recognized in the statement of comprehensive income.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (loss) of the periods in which it expects the deferred tax assets to be realized or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period. A valuation allowance is provided, on the basis of past years and future expectations, when it is not probable that taxable profits will be available against which the future income tax deductions can be utilized.

3.17 Provision

Provisions are recognized when: (a) the Corporation has an obligation at the reporting date as a result of a past event; (b) it is probable (i.e., more likely than not) that the entity will be required to transfer economic benefits in settlement; (c) and the amount of the obligation can be estimated reliably. Where the Corporation expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage oftime is recognized as a borrowing cost. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

3.18 Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

3.19 Events after the Reporting Period

Post year-end events that provide additional information about the Corporation's financial position at reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements, when material.

4. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2020	2019
Petty Cash	**20,729**	11,058
Cash in Bank – Local Currency, Current Account	**57,480,071**	49,970,414
Cash in Bank – Foreign Currency, Savings Account	**1,346,879**	1,424,455
	58,847,679	51,405,927

The Bangko Sentral ng Pilipinas guiding foreign exchange rate as of reporting date was adopted to convert the US dollar deposits at month end. Conversion rates as of December 29, 2020 and December 27, 2019 are P48.023 and P50.744, respectively.

5. FINANCIAL ASSETS

This represents PADC's Investment in Treasury Bills with a face value of P20,039,000. Same amount was withdrawn and deposited to PADC's LBP account on December 23, 2020.

6. RECEIVABLES

This account is composed of:

	2020	2019
Accounts Receivables	**32,433,128**	40,485,687
Operating Lease Receivables	**29,130,009**	2,439,279
Other Receivables	**1,616,363**	1,833,719
	63,179,500	44,758,685
Allowance for Impairment	**(5,487,079)**	(5,487,079)
	57,692,421	39,271,606
Due from Officers and Employees	**2,017,943**	1,864,004
Receivables - Disallowance	**931,189**	1,007,190
	60,641,553	42,142,800

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

Operating Lease Receivables consists of rental of office spaces and hangarage.

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

Due from Officers and Employees consists mainly of unliquidated cash advances.

Receivables - Disallowance represents the cash advance granted to a PADC Acting Treasurer for the Revolving Fund of the PADC President, the liquidation of which was disallowed under Notice of Disallowance (ND) No. 2009-009(2007-2008) and various Notices of Disallowance with COA Orders of Execution (COE) implemented in March 2018.

7. INVENTORIES

This account consists of the following:

	2020	2019
Merchandise Inventory	**68,793,045**	66,319,892
Allowance for Obsolescence	**(23,563,740)**	(23,563,740)
Net Value	**45,229,305**	42,756,152
Other Supplies and Materials Inventory	**120,665**	44,196
	45,349,970	42,800,348

Merchandise Inventory consists of aircraft parts and its components from manufacturers such as Allison, Bendix, BO-105, BNI, C-130, Cessna, Continental, Foker, Hartzell, Lycoming, McCauley, Universal, Woodward and SF 600 Canguro.

The inventory balances are subject to reconciliation upon the completion of the wall-to-wall inventory count being conducted. As of December 31, 2020, the inventory count is 28 per cent completed.

8. OTHER CURRENT ASSETS

This account consists of the following:

	2020	2019
Withholding Tax at Source	**2,840,619**	10,217,723
Prepaid Rent	**0**	9,023
Other Prepayments	**2,253,223**	7,503,002
	5,093,842	17,729,748

Other Prepayments consists of advances to various suppliers and input tax.

9. INVESTMENT IN ASSOCIATE

This account pertains to the Corporation's *Investment in Airbus Helicopters Phils. Inc. (AHPI)* consisting of 11,700 shares, representing 30 per cent equity. AHPI has declared and remitted dividends for 2020 and 2019 amounting to P5,620,200 and P5,619,718, respectively.

The carrying amount of the investment was reassessed in CY 2017 in the light of AHPI's improved situation. It was established that the recoverable amount exceeded the carrying amount, necessitating the reversal of the Allowance for Impairment amounting to P6,900,948.

10. OTHER INVESTMENTS

This account consists of the following:

	2020	2019
PLDT	**55,300**	55,300
Meralco	**5,870**	5,870
	61,170	61,170

11. PROPERTY AND EQUIPMENT

This account consists of the following:

2020

	Buildings	Office Equipment	Info. and Comm. Tech. Equip-ment	Comm. Equip-ment	Other Mach. & Equip-ment	Motor Vehicles	Acft.& Grd. Equip-ment	Furn. and Fixtures	Library Books	TOTAL
Cost										
Balance at beginning of year	27,597,260	12,499,586	828,713	494,747	41,893,690	5,587,224	8,640,880	56,000	112,382	97,710,482
Additions/ deductions	0	0	0	0	0	2,747,680	0	0	0	2,747,680
Balance at end of year	27,597,260	12,499,586	828,713	494,747	41,893,690	8,334,904	8,640,880	56,000	112,382	100,458,162
Accumulated Depreciation										
Balance at beginning of year	25,423,317	10,755,637	514,021	445,273	36,471,488	5,028,858	7,776,792	0	101,411	86,516,797
Depreciation	592,894	57,594	88,579	0	232,585	412,152	0	0	0	1,383,804
Balance at end of year	26,016,211	10,813,231	602,600	445,273	36,704,073	5,441,010	7,776,792	0	101,411	87,900,601
Carrying amount as of Dec. 31, 2020	**1,581,049**	**1,686,355**	**226,113**	**49,474**	**5,189,617**	**2,893,894**	**864,088**	**56,000**	**10,971**	**12,557,561**

2019

	Buildings	Office Equipment	Info. and Comm. Tech. Equip-ment	Comm. Equip-ment	Other Mach. & Equip-ment	Motor Vehicles	Acft.& Grd. Equip-ment	Furn. and Fixtures	Library Books	TOTAL
Cost										
Balance at beginning of year	27,597,260	12,262,738	625,168	494,747	40,941,874	5,587,224	8,640,880	56,000	112,382	96,318,273
Additions/deductions	0	236,848	203,545	0	951,816	0	0	0	0	1,392,209
Balance at end of year	27,597,260	12,499,586	828,713	494,747	41,893,690	5,587,224	8,640,880	56,000	112,382	97,710,482
Accumulated Depreciation										
Balance at beginning of year	24,830,423	10,702,531	466,782	445,273	36,307,816	5,021,621	7,774,934	0	101,233	85,650,613
Depreciation	592,894	53,106	47,239	0	163,672	7,237	1,858	0	178	866,184
Balance at end of year	25,423,317	10,755,637	514,021	445,273	36,471,488	5,028,858	7,776,792	0	101,411	86,516,797
Carrying amount as of Dec. 31, 2019	**2,173,943**	**1,743,949**	**314,692**	**49,474**	**5,422,202**	**558,366**	**864,088**	**56,000**	**10,971**	**11,193,685**

The carrying amount of Buildings, which consist of Hangar 1, Hangar 2 and Hangar 3, are based on original valuation less accumulated depreciation. However, through the years numerous repairs and improvements were already inputted but were not accounted for in their value. Wherefore, an immediate appraisal needs to be undertaken, as to improve the valuation of these Hangars.

12. DEFERRED TAX ASSET

This account pertains to temporary differences arising from bad debts expense recognized in prior years and unrealized foreign exchange loss.

13. OTHER NON-CURRENT ASSETS

This account consists of:

	2020	2019
Accounts Receivables	**35,568,891**	35,568,891
Miscellaneous Receivables	**8,513,714**	8,513,714
	44,082,605	44,082,605
Allowance for Impairment	**(44,082,605)**	(44,082,605)
	0	0
Traded-in Spare Parts and Accessories	**11,270,950**	11,270,950
Flight Equipment-Rotable Parts	**1,610,445**	1,610,445
	12,881,395	12,881,395
Allowance for Impairment	**(12,881,395)**	(12,881,395)
	0	0
Deposits	**2,118,605**	2,118,605
	2,118,605	2,118,605

Because of doubtful of collectability and utilization, the receivable and inventory accounts, together with their provisions, were reclassified under the Other Assets account by virtue of Board Resolution No. 12 series of 1991. An additional allowance for bad debts amounting to P16,244,202 was set up in CY 2011 upon the approval of the Board of Directors.

Miscellaneous Receivables include the claim of P2,183,500 against a former PADC Treasurer who entrusted to an intermediary PNB employee the amount for the purchase of dollars in the black market. The estafa case against the former PADC Treasurer, which was filed on April 22, 1986 by the Office of the Government Corporate Counsel with the Office of the Provincial Fiscal of Rizal, is still pending.

14. FINANCIAL LIABILITIES

This account consists of the following:

	2020	2019
Accounts Payable - Trade	**3,155,193**	2,222,888
Due to Officers and Employees	**1,991,850**	1,962,036
	5,147,043	4,184,924

Accounts Payable - Trade consists mainly of unpaid utilities expenses and security services.

Due to Officers and Employees represents the accrual of the third tranche of the Salary Standardization Law differential.

15. INTER-AGENCY PAYABLES

This account is composed of:

	2020	2019
Due to BIR	**101,554**	15,380,206
Due to GSIS	**193,536**	272,781
Due to Pag-IBIG	**69,659**	2,313
Due to Philhealth	**19,311**	17,819
Due to Treasurer of the Philippines	**46,667,785**	43,651,453
Value Added Tax Payable	**419,990**	1,358,567
Income Tax Payable	**2,926,891**	11,259,188
	50,398,726	71,942,327

Due to Treasurer of the Philippines pertains to cost of audit of P44,284,285 and due to Office of the Government Corporate Counsel of P2,383,500 representing unsettled assessments for legal fees.

16. UNEARNED INCOME

This account represents the down payment made by a customer for the purchase of aircraft parts and percentage of billed amount to the customer.

17. OTHER PAYABLES

This account consists of:

	2020	2019
Dividends Payable	**23,571,965**	23,571,965
Other Payables	**5,469,020**	5,210,145
	29,040,985	28,782,110

PADC, in its letter to the Department of Finance (DOF), requested dividend exemption based on the revised Implementing Rules and Regulations of RA No. 7656 which stipulates that Government-Owned or Controlled Corporations (GOCCs) with net income but have negative retained earnings may be exempt from declaring and remitting dividends upon proper request to the Secretary of the DOF for exemption.

DOF, in its letter dated September 2, 2020, informed PADC that they cannot grant PADC's request for dividend exemption. Instead, they recommended he settlement of the outstanding dividend under a staggered payment plan of P15.94 million a year for two years with due dates on or before December 31, 2021 and December 31, 2022.

They added that while PADC has negative earnings, the transfer of PADC under the supervision of the Department of National Defense (DND) provided avenues for workable options to boost its financial operations.

18. TRUST LIABILITIES

This account consists of payables to the following:

	2020	2019
Cebu Pacific Airways	**2,935,906**	2,935,906
Various Customers	**2,994,593**	2,659,018
Various Employees and Officers	**960,774**	960,774
	6,891,273	6,555,698

Payable to Cebu Pacific Airways and *Various Customers* pertains to one month rental deposits.

Payable to Various Employees and Officers represents withheld salary and wages, representation and transportation allowances of employees and officers of PADC with COA Order of Execution.

19. PROVISIONS

This account represents the money value of the earned vacation and sick leave credits of employees.

20. DEFERRED TAX LIABILITIES

This account pertains to temporary differences arising from unrealized gain from foreign transactions.

21. CAPITAL STOCK

This account pertains to the subscribed and paid shares, as follows:

	Subscribed Shares	Par Value/ Stated Value	Property Contribution	Cash Contribution	Total
National Government	2,000,000	40	151,967,400	65,700,000	217,667,400
	917,783	150			
GSIS	500,000	40	0	20,000,000	20,000,000
DBP	500,000	40	0	20,000,000	20,000,000
	3,917,783		151,967,400	105,700,000	257,667,400

Under Presidential Decree (PD) No. 286, the initial authorized capital of the Corporation is P50 million, divided into five hundred thousand shares, at P100 par value. PD No. 346 increased the authorized capital stock into three million shares, no par value. PD No. 696 further increased the capital stock into five million shares, no par value.

The two million shares of stock subscribed and paid for by the National Government (NG) had an initial stated value of P40 per share. The five hundred thousand shares of stock each for the Development Bank of the Philippines (DBP) and the Government Service Insurance System (GSIS) were also issued at P40 per share.

However, in its letter dated June 11, 2013, DBP informed PADC, that it ceased to be an ex-officio member of the PADC Board, citing that "on December 8, 1986, President Corazon C. Aquino issued Proclamation No. 50, mandating GOCCs and Government Financial Institutions to transfer non-performing accounts to the NG through the Asset Privatization Trust, now known as Privatization and Management Office. PADC was among the assets transferred by DBP to the NG on February 27, 1987."Wherefore, the 500,000 shares totaling P20,000,000 were delegated to the NG. PADC Management is awaiting approval/confirmation from PADC Board/NG.

The property contribution of the NG consisted of four C-130 aircrafts which were subsequently sold to a private foreign individual and to DND.

22. CONTINGENT LIABILITIES

The Bureau of Internal Revenue (BIR) issued Tax Assessment for alleged tax deficiencies by PADC for the years, 1999, 2003 and 2008 as follows:

	1999	2003	2008	Total
Deficiency Income Tax	6,061,842	8,150,362	0	14,212,204
Value Added Tax	3,862,112	5,594,402	1,493,310	10,949,824
Expanded Withholding Tax	119,720	378.027	350,552	848,299
Withholding Tax on Compensation	0	3,083,121	352,603	3,435,724
Creditable Value Added Tax	0	0	148,079	148,079
	10,043,674	**17,205,912**	**2,344,544**	**29,594,130**

On December 4, 2020, PADC availed the BIR Tax Amnesty Program pursuant to Republic Act No. 11213, as implemented by Revenue Regulation No. 4-2019. On December 15, 2020, by virtue of Board Resolution No. 9 series of 2020, PADC paid P15,415,226.62 for tax assessments for the years 1999 and 2003.

For CY 2004, the following Court decisions were rendered:

- On February 7, 2007 and September 13, 2011, the PADC Board instructed the PADC Management to exert optimum efforts in negotiating with the BIR for possible tax remedies PADC can undertake for CYs 2003 and 2004 assessments. On August 1, 2008 and August 16, 2011, BIR issued a Final Decision on Disputed Assessment for CYs 2003 and 2004, against which petitions for review were filed at the Court of Tax Appeals on September 8, 2008 and October 5, 2011, paying aggregate court fees amounting to P505,475.13 and P111,204.20, respectively.

- On April 8, 2016, the Court of Tax Appeals cancelled and abated the Disputed Assessment for CY 2004. Although BIR manifested intention to appeal to the Supreme Court, no copy of petition is received yet.

- On May 4, 2018, the Court of Tax Appeals certified the Decision rendered in Disputed Assessment for CY 2004 dated August 23, 2017, which reads as follows: *"WHEREFORE, finding no cogent reason to disturb the findings and conclusions reached by the Second Division in the assailed Decision dated April 5, 2016 as well as in the assailed Resolution dated August 12, 2016, the same are hereby AFFIRMED. Accordingly, the Petition for Review filed with the Court En Banc on September 23, 2016 is hereby DISMISSED for the lack of merit."* The same has, on February 17, 2018, became final and executory, petitioner's Motion for Reconsideration thereof having been denied in a Resolution dated January 5, 2018 without any appeal being taken thereon, and is hereby recorded in the Book of Entries of Judgments.

23. SALES REVENUE/COST OF SALES

These accounts represent the following:

	2020	2019
Sales		
Man-hours	**3,275,104**	4,406,137
Over-the-counter	**0**	17,747,833
	3,275,104	22,153,970
Cost of Sales		
Man-hours	**1,884,567**	2,975,600
Over-the-counter	**0**	13,221,362
	1,884,567	16,196,962
Gross Profit	**1,390,537**	5,957,008

24. RENTAL INCOME

This account consists of:

	2020	2019
Hangarage Fees	**50,717,386**	45,842,601
Office Rental	**362,670**	226,200
	51,080,056	46,068,801

Hangarage fees represents income from clients who place their aircrafts inside Hangar 3 while waiting for the aircraft parts to be used for repair and overhaul and also from clients who store their aircraft parts, tools and equipment at Hangar 3.

25. PERSONNEL SERVICES

25.1 Salaries and Wages

	2020	2019
Salaries and Wages - Regular	**17,480,579**	18,126,451

25.2 Other Compensation

	2020	2019
Year-End Bonus	**2,891,903**	3,081,235
Personnel Economic Relief Allowance	**1,004,545**	1,025,062
Representation Allowance	**868,625**	1,001,500
Transportation Allowance	**849,136**	906,267
Clothing/uniform Allowance	**246,000**	258,000
Cash Gift	**213,000**	216,000
Productivity Incentive Allowance	**205,000**	210,000
Hazard Pay	**109,000**	0
Longevity Pay	**0**	10,000
Other Bonuses and Allowances	**427,515**	461,533
	6,814,724	7,169,597

25.3 Personnel Benefit Compensation

	2020	2019
Retirement and Life Insurance Premiums	**1,984,013**	2,961,494
Philhealth Contributions	**238,193**	207,834
Employees Compensation Insurance Premiums	**50,200**	51,600
Pag-IBIG Contributions	**49,300**	51,600
	2,321,706	3,272,528

25.4 Other Personnel Benefits

	2020	2019
Terminal Leave Benefits	**1,664,253**	478,160

26. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of:

	2020	2019
Professional Services	**3,891,923**	4,350,859
Security Services	**2,570,097**	1,507,470
Taxes, Insurance Premiums and Other Fees	**1,415,059**	834,397
Depreciation	**1,383,804**	866,184
Utility Expenses	**1,299,595**	1,686,877
Supplies and Materials Expenses	**254,285**	341,332
Communication Expenses	**236,029**	260,955
Travelling Expenses - Local/Foreign	**68,972**	236,535
Confidential, Intelligence, and Extraordinary Expenses	**37,710**	88,346
Repairs and Maintenance	**17,439**	547,730
Training Expenses	**0**	418,177
Other Maintenance and Operating Expenses	**227,169**	411,345
	11,402,082	11,550,207

26.1 Professional Services

	2020	2019
Auditing Services	**3,590,218**	3,972,842
Legal Services	**301,705**	378,017
	3,891,923	4,350,859

26.2 Depreciation

	2020	2019
Buildings and Structures	**592,894**	592,894
Transportation Equipment	**412,152**	8,738
Machinery and Equipment	**378,758**	264,017
Furniture and Fixtures	**0**	535
	1,383,804	866,184

27. FINANCE EXPENSES

	2020	2019
Bank Charges	**36,648**	40,257
Other Financial Charges	**773,159**	4,662
	809,807	44,919

The significant increase of the other financial charges is caused by the liquidated damages charged by the Philippine Army to PADC.

28. RETAINED EARNINGS (DEFICIT)

This account pertains to accumulated earnings (losses) and prior period adjustments.

Various Adjustments prior to CY 2019 pertain to the following:

Set up of Payable to Treasurer of the Philippines	(32,562,349)
Settlement of Tax Assessments through Tax Amnesty	(15,415,227)
Dividends Payable	(8,197,490)
Payment of Various Expenses	(3,358,532)
Set up of Accounts Receivable for Refund	1,266,606
Adjustments on Recorded Revenue	813,713
Adjustment on Receivables-Disallowances	194,603
Settlement of Notice of Suspension	30,000
	(57,228,676)

29. SUPPLEMENTARY INFORMATION ON TAXES

In compliance with the requirements set forth by BIR Revenue Regulations 15-2010, hereunder are the information on taxes, duties and licenses paid or accrued during the taxable year 2020.

The Corporation is a VAT-registered Corporation with VAT output tax declaration of P3.018 million for the year based on the amount reflected in the Sales Account of P54.664 million.

The amount of VAT input taxes claimed are broken down as follows:

Balance at beginning of the year	1,350,841
Current year's purchases:	
Goods other than capital goods	62,107
Importation of goods other than capital goods	142,060

Services	345,750
Claims for tax credits/refund and other adjustments	(543,485)
Balance at end of the year	1,357,273

Other Taxes and Licenses

Local:	
Real Property Tax	175,636
Business permit	643,580
Community Tax	10,500
	829,716

National:	
BIR Annual Registration	500
VAT/Percentage Taxes	2,469,147
Others (CGT/DST)	0
	2,469,647

The amount of withholding taxes paid/accrued for the year amounted to P3,414,902, broken down as follows:

Tax on compensation and benefits	3,000,129
Creditable withholding taxes	106,303
VAT withheld and other percentage taxes	308,470
	3,414,902

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. The existence and completeness of Merchandise Inventory totaling P68.793 million, with a carrying value of P45.229 million as of December 31, 2020 was not determined due to incomplete inventory-taking.

Furthermore, the writing of 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 Merchandise Inventory as required under paragraph 28, Philippine Accounting Standard (PAS) 2.

1.1. PAS 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 costs 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. As of December 31, 2020, PADC reported Merchandise Inventory costing P68.793 million, with a carrying value of P45.229 million, as follows:

Table 1 – Merchandise Inventory

	Amount
Beginning Balance, January 1, 2020	66,319,892
Add: Purchases/additions during the year	3,984,364
Total	70,304,256
Less: Issuances/withdrawals during the year	(1,511,211)
Ending Balance, December 31, 2020	68,793,045
Less: Allowance for Obsolescence	(23,563,740)
Carrying Value	45,229,305

1.4. It was reported by the PADC Inventory Team that it has completed the count of at least 28 per cent of the total inventory items.

1.5. Consequently, the physical count of Merchandise Inventories as of December 31, 2020 was not completed to determine the existence and completeness of the inventory costing P68.793 million. Likewise, the determination of whether the inventory is not carried in excess of amounts expected to be realized from their sale or use was not performed.

1.6. As disclosed in previous years' audit, the Allowance for Obsolescence on inventories of P23.564 million (presented in Table 1) was set up way back in CY 1991. In CY 2015, an Inventory Team of PADC identified and reported aircraft parts costing P40.919 million as obsolete/unserviceable/condemned. Apparently, Management was not convinced on the report of the Inventory Team, hence, the Audit Team's recommendation to adjust the Allowance for Obsolescence was not implemented.

1.7. In prior years, Management committed to conduct an evaluation/assessment of the inventories, but said activity was not carried-out as of year-end. As of December 31, 2020, no additional provision for the Allowance for Obsolescence or write-down was recognized.

1.8. It was also noted that most of the inventory used/derecognized in CY 2020 were purchased also in CY 2020. Movement of inventory purchased/acquired in prior years is very minimal.

1.9. **We recommended that Management:**

a. **Comply with PAS 2, on Inventories, by presenting the valuation of Merchandise Inventory at lower of cost or NRV;**

b. **Require the Inventory Team to complete the inventory-taking process and the Accounting Division to ensure that the balance of Merchandise Inventory per books, per count and per stock cards are reconciled;**

c. **Submit to the Audit Team the Report on Physical Count of Inventories as required under Section 122 of PD No. 1445; and**

d. **Consider hiring third party appraiser to come up with the correct inventory valuation and make the necessary adjustments to the inventory account in the books.**

1.10. Management commented that it is exerting all effort to come up with a reconciled record and count of inventories for aircraft spare parts. The counting started last October 2020 and was expected to be finished by December 31, 2020. However, such counting is still ongoing. In addition, Management has requested an Inventory Team from the Philippine Air Force to augment the PADC Inventory Team in order to finish the count and be able to efficiently reconcile PADC records.

1.11. Management further commented that it will comply with the requirement that PADC's record of inventory be reconciled. It has brought up to the Board that an additional allowance for obsolescence be provided to what was set up in 1991 in the amount of P23.564 million.

1.12. According to Management, they are exerting all efforts to comply with this requirement. Management had created also a Disposal Committee and has identified some aircraft spare parts ready for destruction.

1.13. The explanation is duly noted. The Audit Team will monitor compliance of PADC with the recommendations.

1.14. Clarification is requested on the existence and valuation of the spare parts currently held/owned by the PADC, in relation to the spare parts that was reclassified to other non-current assets costing P12.881 million, which was provided with 100 per cent allowance for impairment. It will appear that the total spare parts for counting cost P81.674 million.

2. **Property and Equipment (PE) costing P100.458 million, with carrying amount of P12.558 million may not be a faithful representation of the portion of the Corporation's assets because of incomplete inventory-taking of PE.**

2.1. For financial information to be useful, it must be both relevant and provide a faithful representation of what it purports to represent. A faithful representation is, to the maximum extent possible, complete, neutral and free from error.

2.2. As of December 31, 2020, the Corporation presented PE costing P100.458 million, with a net carrying value of P12.558 million as follows:

Table 2 – Property and Equipment

Description	Cost	Accumulated Depreciation	Carrying Value	Remarks
Buildings	27,597,260	26,016,211	1,581,049	hangars are for rent
Office Equipment	12,499,586	10,813,231	1,686,355	
Information and Technology Equipment	828,713	602,600	226,113	
Communication Equipment	494,747	445,273	49,474	
Other Machinery and Equipment	41,893,690	36,704,073	5,189,617	
Motor Vehicles (MV)	8,334,904	5,441,010	2,893,894	includes 2 MVs delivered in 2020 costing P2,747,680
Aircraft and Aircraft Ground Equipment	8,640,880	7,776,792	864,088	
Furniture and Fixtures	56,000	0	56,000	
Books	112,382	101,411	10,971	
Total as of December 31, 2020	**100,458,162**	**87,900,599**	**12,557,561**	

2.3. For CY 2020, the inventory taking activities were not completed, and no report on the conduct of inventory taking was submitted to the Audit Team. As an alternative procedure to ascertain existence of the reported PE, the Audit Team compared the PE per books costing P100.458 million as of December 31, 2020 with the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) as of December 31, 2019[1], adjusted to include the count of 2 MVs and 6 units of desktop computers purchased and received in CY 2020. The result showed a net variance of P24.908 million, as shown in the next page:

[1]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.

Table 3 –Comparison of PE per Books and 2019 RPCPPE

Description	Per books	Per Count	Variance	Remarks
Buildings	27,597,260	27,770,510	(173,250)	
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
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)	
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****	
Add:				
2 MVs received in 2020	2,747,680	2,747,680*	0	
6 sets desktop computers received in 2020	203,545	203,545	0	
Total as of December 31, 2020	**100,458,162**	**91,037,772**	**24,907,754****	

* Confirmed by the Audit Team as existing as of this date.
**Absolute amount, without offsetting the negative and positive variances.

2.4. It was noted that the list of properties used in preparing the lapsing schedule[2] does not include properties which were acquired prior to CY 2012. Inquiry with the Accounting Division disclosed that there was no proper turnover of files from the previous Accountant.

2.5. Although the variance of P24.908 million constitutes only 24.79 per cent of P100.458 million total cost of PE, the incomplete inventory-taking and the incomplete list of PE might have adverse effect on the integrity of the inventory-taking activity.

2.6. COA Circular No. 2020-06 dated January 31, 2020 was issued to provide guidelines and procedures to assist government agencies in coming up with reliable property, plant and equipment (PPE) balances that are verifiable as to existence, condition and accountability.

2.7. Section 5.8 of the said Circular provides that the Inventory Committee shall be responsible for the actual count to ascertain the existence, completeness and condition of all PPEs owned by the government agency.

2.8. **We recommended and Management agreed to require the Inventory Team to complete the inventory-taking process and the Accounting**

[2]A lapsing schedule is a spreadsheet that lists the purchase date, amount, 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.

Division to reconcile the balances of PE per books and per count or RPCPPE and per ledger cards.

2.9. The Audit Team will monitor compliance of PADC with the recommendation.

3. Receivables totaling P63.179 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 P57.692 million could be more than its recoverable amount.

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

3.2. As of December 31, 2020, the Corporation reported significant portion of its Receivables, net of allowance for impairment/bad debts, amounting to P57.692 million, as follows:

Table 4 - Breakdown of Receivables

Classification	Receivables
Accounts Receivables (AR)	32,433,128
Operating Lease Receivables	29,130,009
Other Receivables	1,616,363
	63,179,500
Allowance for Impairment-AR	(5,487,079)
	57,692,421

3.3. In Note 6 to the financial statements, Management disclosed the following relative to the above accounts:

- *Accounts Receivables* 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 of water and electricity bills of various tenants of the Corporation.

3.4. Based on the Corporation's previous years practice, the amortized cost is the principal amount minus any reduction (through the use of an allowance account) for impairment or uncollectability. The P5.487 million allowance for impairment was deducted from the total AR, to comply with the proper valuation under PFRS 9 that AR shall be measured at amortized cost.

3.5. Our verification disclosed that the latest transaction relating to Allowance for Impairment-AR account was made in December 2013. The following events that occurred may have resulted in overvaluation of receivables or amortized cost exceeding the recoverable amount, indicating the need for assessment at reporting date.

3.6. The Aging of Receivables as of December 31, 2020 showed that P60.188 million, or 95.99 per cent, has been overdue, as follows:

Table 5 - Aging of Receivables

Age	Amount	Percentage	Remarks
Current	2,516,037	4.01%	
61-90 days	7,049,134	11.24%	overdue
Over 90 days	19,235,854	30.68%	overdue
1-2 years	19,830,875	31.63%	overdue
3-5 years	13,496,860	21.52%	overdue
Over 5 years	574,818	0.92%	overdue
	62,703,578*	**100.00%**	

*based on Aging of Receivables provided by Management, with noted discrepancy of P475,922 between the balance per books of P63.179 million (presented in Table 4) and per subsidiary ledgers.

3.7. The receivables for monthly rentals are due within five days of the current month; share in utilities is due within five days from receipt of PADC invoice; while those receivables arising from sales are due after delivery of the goods and/or services. Considering these due dates of payment, it can be inferred from the data in Table 5, that there is high risk of non-collection of the accounts. The allowance for uncollectability or bad debts of P5.487 million stands at only 8.68 per cent of total receivables of P63.179 million.

3.8. In addition, the data in Table 5 includes receivables from Cebu Pacific totaling P27.996 million, or 44.65 per cent of P62.704 million, that was considered as 100 per cent collectible since it was reported at its principal amount without any allowance for impairment or uncollectability. Given the circumstance that the COVID-19 pandemic is likely to have significant implications on certain industries like airlines and travel, Management cannot deny that their receivables may have been impaired.

3.9. As a result of the non-assessment of collectability of receivables, Management's assertion that the valuation of its receivables at P57.692 million (at amortized cost), complies with PFRS 9, could not be relied upon. The amortized cost of AR amounting to P57.692 million maybe more than its recoverable amount.

3.10. **We recommended that Management conduct an assessment of receivables 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.**

3.11. Management commented that as stated in the Audit Team's analysis of composition of Accounts Receivables of PADC, it was noted that P27.996 million or 44.65 per cent of total collectibles comes from Cebu Pacific Air, as of December 30, 2020. However, in early January 2021, Cebu Pacific Air paid PADC equivalent to two months from its nine months obligations. This payment suggests that Cebu Pacific is willing to pay its rental despite the business economic slowdown brought by the pandemic.

3.12. Management further commented that, in January 2021, the Philippine Army (PA) paid the outstanding account of P8.9 million, an indication that collectability of these accounts is feasible and they are working on the collection of accounts of Philippine National Police in the amount of P13.497 million.

3.13. The explanation that Cebu Pacific and PA settled P6.632 million and P8.9 million, respectively, in January 2021, does not automatically equate to compliance with PFRS 9, but reduces the balance of the receivable accounts exposed to credit loss to P51.066 million. The P8.9 million payment by PA was made in CY 2020, hence deducted already from the December 31, 2020 balance.

3.14. Thus, compliance with the recommendation is still enjoined.

3.15. The difficulty being faced by PADC's clients as a result of the pandemic is among the factors that Management should consider in assessing the expected credit loss, and subsequently determine the amortized cost of its AR account.

4. **Hangars being leased to other parties were recognized and presented as Property and Equipment (PE) instead of Investment Property resulting in overstatement of PE account and understatement of Investment Property account by undetermined amount.**

4.1. Philippine Accounting Standard (PAS) 40, paragraph 5 defines Investment Property as follows:

> *Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:*
> *a. use in the production or supply of goods or services or for administrative purposes; or*
> *b. sale in the ordinary course of business.*

4.2. The Corporation owns three hangars reported as portion of PE-Buildings costing P27.597 million, with carrying value of P1.581 million.

4.3. Our verification disclosed that PADC-owned hangars were leased to other parties, as follows:

Table 6 – Hangars' Occupants

Property	Lessees	Annual Income	Remarks
Hangar 1	Cebu Pacific	37,189,188	rental of P3,099,099 per month
Hangar 2	Airbus Helicopters	8,474,504	926.55 sq. m – Hangar Area 545.29 sq.m. – Work and Office Area (left wing) 951 sq. m.- Ramp Area 347.78 sq.m.- Ground Floor Area (Right Wing)

Property	Lessees	Annual Income	Remarks
Hangar 3	Safer PH Innovations	395,640	rental of P32,970 per month ; 94.30 sq. m. ground floor, west wing
	Sunlight Express Airways	1,599,900	rental of office space at P266,650 per month for 6 months

4.4. Based on the quoted definition of Investment property, Hangars 1, 2 and 3 are Investment Properties rather than PE. It is our view that only a portion of hangars occupied by PADC may appropriately be classified and presented as PE.

4.5. **We recommended and Management agreed to:**

a. **Determine the value of the hangars for lease and present the same as Investment Property in accordance with the requirements of PAS 40; and**

b. **Comply with disclosure requirements of PAS 40 on Investment Property.**

4.6. The Audit Team will monitor compliance of PADC with the recommendations.

5. **The Management did not submit/present its assessment on the ability of PADC to continue as a going concern as mandated by Philippine Accounting Standard (PAS) 1 "Presentation of Financial Statements" despite the events or conditions that may cast doubt about the going concern assumption.**

5.1. Paragraph 23 of PAS 1 provides that:

*"When preparing financial statements, <u>management shall make an assessment of an entity's ability to continue as a going concern.</u> 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. <u>When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, **those uncertainties shall be disclosed**.</u> 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)*

5.2. In Note 3 to CY 2020 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 upon the Corporation's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis."

5.3. Thus, the Corporation's financial statements were deemed prepared on a going concern basis which denotes that its assets will be realized and its liabilities will be discharged in the normal course of business. However, the following events or conditions were noted for Management's consideration that may cast doubts as to the ability of PADC to continue the Going Concern Assumption:

a. Accumulated deficit

a.1 The Stockholders' Equity section of the Statement of Financial Position showed a deficit balance. Presented below is the accumulated deficit for the years 2020 and 2019.

	2020	2019
Accumulated Deficit	(162,597,007)	(177,053,646)

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

i. Dividends due to the National Government amounting to P7.360 million and P7.201 million in CYs 2020 and 2019, respectively;
ii. Write-down of inventories to adjust the valuation of merchandise inventory to its net realizable value; and
iii. Expected credit loss on receivables. The last transaction pertaining to provision for allowance for uncollectability was made in December 2013.

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.

b. *Negative operating cash flows*

b.1 It was noted that the Corporation has a negative net operating cash flows amounting to P18.177 million and P3.938 million in CYs 2020 and 2019, respectively. Failure to generate cash from operations would eventually result to shortage of cash that would satisfy or pay the creditors and suppliers.

b.2 In CY 2019, the Corporation requested exemption from dividend payments, however, the Department of Finance instead recommended a staggered payment of P15.94 million for two years with due dates on or before December 31, 2021 and December 31, 2022.

c. *Counterparty credit risk*

c.1 The Corporation reported receivables amounting to P57.692 million and P39.271 million in CYs 2020 and 2019, respectively, with the following details:

Table 7 – Receivables

Classification	2020	2019	Increase (Decrease)
Accounts Receivables	32,433,128	40,485,687	(8,052,559)
Operating Lease Receivables	29,130,009	2,439,279	26,690,730
Other Receivables	1,616,363	1,833,719	(217,356)
	63,179,500	44,758,685	18,420,815
Allowance for Impairment-AR	(5,487,079)	(5,487,079)	0
	57,692,421	39,271,606	18,420,815

c.2 The increase in the balance of operating lease receivables of P26.691 million is mainly from the unsettled accounts of Cebu Pacific. Of the P29.130 million balance of Operating Lease Receivables as of December 31, 2020, P27.997 million pertains to the accounts of Cebu Pacific. In the past years, payment of the rental billings to Cebu Pacific is updated. Apparently, Cebu Pacific is requesting for the waiving of its monthly rental from March 2020 to March 2021, which was declined by the Board.

c.3 Based on the aging of receivables (Accounts Receivables and Operating Lease Receivables), only P2.516 million is aged as current or 1 to 60 days, hence there is a risk that the Corporation may not be able to collect majority of its receivables.

d. *Loss of a major market*

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

d.2 Presented below is the summary of the Corporation's financial operation for the last five years, lifted from its financial statements:

Table 8 – PADC's Financial Operation

	2020	2019	2018	2017	2016
			In Million Pesos		
Sales Revenue	3.275	22.154	5.918	0.307	16.247
Cost of Sales	1.885	16.197	2.868	0.123	19.696
Gross Income (Loss)	1.390	5.957	3.050	0.184	(3.449)
Less: Operating Expenses	(40.572)	(40.739)	(30.412)	(35.431)	(21.906)
Loss from Operations	**(39.182)**	**(34.782)**	**(27.362)**	**(35.247)**	**(25.355)**
Add:					
Rental Income	51.080	46.069	43.448	40.015	36.903
Other Income - Net of Other Expenses	6.188	6.833	5.880	5.841	0.478
Net Income Before Tax	18.086	18.120	21.966	10.609	12.026

d.3 It can be gleaned from the above table 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.

d.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 the Manila International Airport Authority (MIAA) being leased by the PADC at a very minimal amount of P8,122.68 per month, exclusive of VAT, or at P0.28/sq. m. per month on the average.

d.5 Under the Department of Transportation (DOTr) Department Order No. 2016-09 dated October 6, 2016, the DOTr Secretary directed the Civil Aviation Authority of the Philippines (CAAP), MIAA, Civil Aeronautics Board (CAB) and all other concerned agencies to undertake the necessary measures to implement the transfer of all general aviation (except helicopter operation and emergency medical airlift services) from Ninoy Aquino International Airport (NAIA) to other alternative gateways. This is to maximize the utilization of existing airport facilities to reduce congestion at NAIA. On October 15, 2019, MIAA notified all hangar concessionaires/lessees to peacefully vacate and turn-over the leased premises at General Aviation area. PADC replied in their letter dated November 5, 2019 to MIAA that they should not be among those lessees required to transfer to any alternate airports because they do not in any way contribute to air traffic congestion.

d.6 In case the DOTr pursue their plans, PADC may be losing its source of rental income considering that the area being rented by the PADC is located in the General Aviation area.

e. ***Significant deterioration in the value of current inventory***

e.1 Related to the loss of major market, PADC need to consider significant inventory write-downs. As reported in previous years, the allowance for obsolescence was set-up way back in 1991.

e.2 As of December 31, 2020, PADC's reported Inventory/spare parts balance is P45.229 million, net of allowance for obsolescence of 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. No write down was recognized from 1992 to 2020.

f. ***Inability to pay creditors on due dates***

f.1 The total outstanding payable of PADC to the Treasurer of the Philippines is P46.668 million.

f.2 *Due to Treasurer of the Philippines* pertains to the cost of audit and unsettled assessments for legal fees amounting to P44.284 million and P2.384 million, respectively.

f.3 PADC also has unpaid dividends to the National Government amounting to P23.572 million, excluding the dividends for CYs 2020 and 2019 amounting to P7.360 million and P7.201 million, respectively.

5.4. 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.

5.5. **We recommended that Management:**

a. Provide the Audit Team with the assessment of the ability to continue as a going concern, considering the noted uncertainties, and the Management's plan 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 identified areas in the assessment of going concern, in the Notes to Financial Statements.

5.6. Management commented the following:

a. ***Accumulated deficit***

a.1 The Management definitely agree with the Team's appreciation that PADC's accumulated deficit signals that the Corporation is not financially stable and requires additional funding. But investors including the National Government 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. *Negative operating cash flows*

b.1 Management is taking solutions to these problems step by step until positive results are realized instead of just putting these things into discussions.

b.2 Management believes that there is no magic in trying to revive PADC's existence including its negative operating cash flows. Rather such problems require in-depth studies and consultations with business experts who have been in the industry for many years.

c. *Counterparty credit risk*

c.1 Due to COVID 19 pandemic all over the world, airline industries are greatly affected. As a matter of fact, not only Cebu Pacific Airways (Cebu Pacific) is affected by economic slowdown but many other multi-billion companies around the world. Knowing these economic problems, PADC will see light at the end of the tunnel, aerospace and airline industries will soon recover including Cebu Pacific and it can settle its unpaid lease soon.

c.2 Cebu Pacific is only one of the many clients of PADC. In the near future, PADC is going to participate in the bidding process of government projects such as projects of the Philippine Air Force (PAF). For 2021 alone, PAF has more or less P8 billion air asset projects. Should PADC be able to undertake one eighth of these projects, P1 billion project will come in to PADC. Not only that, other government air assets are also under negotiations with PADC, such negotiations are the light at the end of the tunnel for PADC that will eventually improve PADC's businesses.

d. *Loss of a major market*

d.1 Within the new environment of PADC under EO No. 70, when President Duterte transferred the administrative supervision of PADC from the DOTr to DND, PADC is in better position. While PADC can maintain all its assets at the General Aviation Area (GAA), PADC plans to own and have 25 hectares of land at Clark. Past to present negotiations is in full fruition. This management is in constant negotiation with respective officers regarding this venture.

d.2 Further, with DND's strong commitment to revive PADC, it has directed all government air assets to go to PADC for its

Maintenance Repair Overhaul Services (MROS) requirements. This major trust of DND leadership on PADC's MROS, does not mean PADC's recession of business nor its operation, but rather PADC's back to its original mandate and making PADC great again. Easily said than done, is actually the challenge of Management. However, with the current plans and programs of DND thru its Self-Reliant Defense Posture (SRDP), PADC is at the center of DND's MROS for its massive air assets acquisition.

d.3 With the progress of DND's acquisition of air assets, PADC will be part of DND's success. Notwithstanding the presence of World Military forces at the South Philippine Sea, DND's air assets will be much heavily in demand. The saying becomes more relevant, that says "when a pilot is safe, he has a good air craft mechanic friend in place." The PAF Pilots had come to realization that they will better serve their purpose if they focus their minds in flying rather than in maintaining aircrafts. With PAF's focus on PADC, Management is in constant meeting for the full consummation of MOA between PAF and PADC.

d.4 PADC is also in constant meeting with Elbit Systems Industries, for its financial negotiations, training, capability transfer, among others. Management is also under negotiations with Korean Aerospace Industries (KAI), Turkey Aerospace Industries (TAI) for partnerships and cooperation. It is never too late for PADC to grow and glow.

e. *Significant deterioration in the value of current inventory*

e.1 PADC's inventory is greatly composed of aircraft spare parts, and air craft spare parts do not grow old and die or lose its value. They remain usable to their original aircrafts, unless they are mutated or physically destroyed. For these reasons, PADC's Quality Assurance inspectors do not agree to declare these spare parts obsolete nor without value. They just remain unusable in the absence of their International Civil Aviation Organization certificates. But their value remain unless they are used and attached to the aircraft and wear and tear apply. They just need replacements as necessary so that the aircraft is air worthy again. This understanding of the life of aircraft parts, which form part of PADC's inventory, should be taken into consideration when Management think of proper valuation of PADC's inventory.

e.2 For these reasons, in the past, COA Auditors were careful enough in devaluing PADC's spare parts inventory until and unless experts in the field of aviation will be the one to express an opinion that these items are no longer usable. In the absence of an opinion from experts on aircraft spare parts, any devaluation of such, are more questionable than not. It is in the same reason that this Management cannot devalue its current inventory in the absence of an expert opinion on the matter. However, PADC's Quality

Assurance inspectors have recently declared some spare parts that are no longer usable due to deformation and/or unpaid mutation.

f. ***Inability to pay creditors on due dates***

f.1 In view of the global financial and health crisis, Management beg for kind indulgence to settle their accountabilities once PADC's financial conditions improve. It was barely a month ago, Management have already sought an audience from Hon. Chairman Michael Aguinaldo to seek guidance from him as to their present predicament.

5.7. Based on the explanation of Management, it is not accurate to represent in its notes to financial statements that *Management is not aware of any material uncertainties that may cast significant doubt upon the Corporation's ability to continue as a going concern,* since they agree with some uncertainties identified by the Audit Team.

5.8. The development of a business plan and a five-year road map plan and its other plans to improve PADC's life was not disclosed in any portion of the notes to financial statements nor presented to the Audit Team.

6. Not all audit disallowances with Notice of Finality of Decision (NFD) as of December 31, 2020 were recognized as receivables in the books of accounts of the Corporation resulting in understatement of Receivables-Disallowances and Retained Earnings accounts by P4.924 million.

6.1. Section 22.6 of COA Circular No. 2009-006 provides that *"The Chief Accountant, shall, on the basis of the NFD, record in the books of accounts, the disallowance and/or charge as a receivable."*

6.2. As of December 31, 2020, the Corporation reported Receivables-Disallowances amounting to P0.931 million.

6.3. In Note 6 to the financial statements, Management disclosed the following:

> *Receivables - disallowances* represents the cash advance granted to a PADC Acting Treasurer for the Revolving Fund of the PADC President, the liquidation of which was disallowed under Notice of Disallowance (ND) No. 2009-009(2007-2008) and various Notices of Disallowance with COA Orders of Execution (COE) implemented in March 2018.

6.4. Comparison of the balance of the account per books of the Corporation with the balance of unsettled disallowances with NFD per records of the Audit Team disclosed a variance of P4.924 million, summarized as follows:

Table 9 - Audit Disallowances with NFDs, Net of Settlement

	Amount
Per Audit Team	5,855,043
Per Books	931,189
Difference	**4,923,854**

6.5. The data in Table 9 shows that most of the audit disallowances with NFDs were not recognized in the books of accounts. As a result, the Receivables-Disallowances and Retained Earnings accounts as of December 31, 2020 are understated by P4.924 million.

6.6. Reconciliation of the balances of unsettled disallowances covered by NFDs per books and per COA records was done by Management and Audit Team. The variance of P4.924 million in Table 9 excludes the claim of Management that ND No. 2006-003 amounting to P0.909 million is already settled, because the Audit Team did not find a document or evidence which would support the exclusion thereof from the unsettled disallowances.

6.7. **We recommended that Management make the necessary adjustments in the books of accounts to reflect the correct balance of Receivables-Disallowances and Retained Earnings as of December 31, 2020 and enforce collection thereof.**

6.8. The Audit Team will monitor compliance of PADC with the recommendation.

7. PADC did not declare, recognize in its books and remit to the National Government (NG) dividends amounting to P7.360 million and P7.201 million representing dividends for Dividend Years (DYs) 2020 and 2019.

7.1. Section 3 of Republic Act (RA) No. 7656 dated November 9, 1993 or "An Act Requiring Government-Owned or Controlled Corporations to Declare Dividends under Certain Conditions to the National Government, and for Other Purposes", states that:

> *"All government-owned or controlled corporations shall declare and remit at least fifty percent (50%) of their annual net earnings as cash, stock or property dividends to the National Government. This section shall also apply to those government-owned or controlled corporations whose profit distribution is provided by their respective charters or by special law, but shall exclude those enumerated in Section 4 hereof: Provided that such dividends accruing to the National Government shall be received by the National Treasury and recorded as income of the General Fund."*

7.2. Likewise, Section 5a of the Revised Implementing Rules and Regulations (RIRR) dated January 26, 2016 of the same Act provides that:

> *a. Except as otherwise provided herein, all GOCCs covered by these Rules, regardless of shareholdings, shall annually declare and remit Dividends directly to the National Government in the name of the Treasurer of the Philippines in accordance with the following guidelines:*

i. *On or before 15 May of each year, at least fifty percent (50%) of their Net Earnings, as Cash, Stock and/or Property Dividends to the National Government.*

7.3. For CYs 2020 and 2019, PADC had net earnings of P14.457 million and P14.538 million, respectively, and the dividends due to NG from these earnings amounts to P7.360 million and P7.201 million for DYs 2020 and 2019, respectively.

7.4. It was noted that dividends payable for the two-year period was not recognized by the Corporation in its books.

7.5. PADC requested for dividend exemption for CY 2019 and prior years' net earnings from the Department of Finance (DOF), however, the latter did not grant PADC's request. Instead, a staggered payment scheme was recommended by DOF for the settlement of PADC's dividends. The staggered payment plan is P15.94 million for two years with due dates on or before December 31, 2021 and December 31, 2022.

7.6. **We recommended that Management recognize in its books the dividends due to NG for DYs 2020 and 2019 in compliance with RA No. 7656 and its implementing rules and regulations.**

7.7. Management commented that the present PADC Management is in the process of negotiation with the DOF in order to determine the accountability of PADC due to NG as they are still determining the correctness of the entries in their financial statements. Aside from the fact that they have very limited resources, as the main revenue source contributor which is the Cebu Pacific Air is continuously not paying its rental arrears, PADC Management is very careful in managing its cash out-flows as it has very limited cash inflows due to present global health crisis. For these reasons, they are constantly communicating with the DOF, in writing and in virtual meetings, relative to the reconciliation of records to determine the actual accountability of PADC.

8. The Trust Liabilities account as of December 31, 2020 amounting to P6.891 million includes deposits made by lessees who are no longer doing business with PADC, hence, the validity thereof may be doubtful.

8.1. Paragraph 15 of the Philippine Accounting Standard (PAS) 1 states that *"Financial statements shall present fairly the financial position and financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework for Financial Reporting (Conceptual Framework)."*

8.2. As of December 31, 2020, the Corporation reported Trust liabilities amounting to P6.891 million.

8.3. In Note 18 to the financial statements, Management disclosed the following relative to Trust Liabilities account:

This account consists of payables to the following:

	2020	*2019*
Cebu Pacific Airways	***2,935,906***	*2,935,906*
Various Customers	***2,994,593***	*2,659,018*
Various Employees and Officers	***960,774***	*960,774*
	6,891,273	*6,555,698*

Payable to Cebu Pacific Airways and various customers pertains to one month rental deposits.

Payable to various employees and officers represents withheld salary and wages, representation and transportation allowances of employees and officers of PADC with COA Order of Execution (COE).

8.4. Inquiry with the Management disclosed that 11 of the 17 lessees in the Schedule of Customers Deposit, with deposit totaling P1.458 million, are already inactive or no longer doing business with PADC, and their deposits were made prior to 2012.

8.5. It appears that the 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 continued recognition thereof as liabilities may be doubtful.

8.6. In addition, we requested Management to apprise the Audit Team on the non-recognition/non-application as settlement of disallowances the amount of P0.961 million Trust Liabilities, considering that the deduction thereof from employees' benefits was in relation to the COE issued by the COA, and to furnish us with the details of such trust liabilities.

8.7. **We recommended that Management exhaust all possible means to determine, based on pertinent documents, the validity of the recorded trust liabilities and to derecognize those that are no longer valid.**

8.8. Management concurred with the observation and believes that these trust liabilities should be returned to lessees who are no longer doing business with PADC and employees and officers of PADC representing withheld salaries and wages, and representation allowance and transportation allowance, from whom it was withheld from.

8.9. The recommendation is to determine the validity of the liability accounts balances, and to present only those valid liabilities in the financial statements. There may be valid reasons for not returning the deposits since the posting thereof is required under the contract and/or the same may have been offset against the obligations of the concessionaires, needing adjustments in the books. The comment of Management to release the amount to concerned lessees and employees is not among the recommendations of the Audit Team.

8.10. Management is enjoined to submit the result of its assessment on the validity of these liabilities and to consider applying the P0.961 million portions of Trust Liabilities as settlement of the related NDs.

B. OTHER OBSERVATIONS

9. PADC did not submit to the Department of Budget and Management (DBM) its Corporate Operating Budget (COB) for CY 2020 which is not in accordance with the provisions of Section 6, Executive Order (EO) No. 518 dated January 23, 1979.

9.1. The DBM issued Corporate Budget Circular (CBC) No. 22, dated December 1, 2016, to enjoin all Government-Owned or Controlled Corporations (GOCCs) to make a timely submission of their COBs for CY 2017 and thereafter pursuant to Section 6 of EO No. 518 dated January 23, 1979 and Section 19, Chapter 3, Book IV of EO No. 292, series of 1987, and to prescribe and/or clarify the guidelines, rules and policies in the formulation of the various components of the COB.

9.2. Sections 3.1 and 3.4 on the General Guidelines and Policies of the Circular provides that:

3.1 GOCCs/GFIs shall prepare and submit their COBs to the Department of Budget and Management (DBM) prior to the beginning of the ensuing fiscal year <u>but not later than December 31 of the current year</u>. Xxx

3.4 <u>In case a GOCC/GFI submits its principal COB after June 30 of the fiscal year</u>, the same shall no longer be reviewed/evaluated by the DBM. As such, the COB level shall only be up to the extent of last year's approved budget level, <u>net of non-recurring expenses</u>.

9.3. Apparently, PADC was not able to submit its CY 2020 COB approved by its Board of Directors (BODs) to the DBM prior to the beginning of the ensuing fiscal year or not later than December 31, 2019.

9.4. In reply to our recommendation to submit the 2020 DBM-approved COB under AOM No. 2021-02, Management explained that they are adopting the CY 2019 DBM-approved COB based on quoted Section 3.4 of DBM Budget Circular No. 22, and a Secretary's Certificate on the adoption for Year 2020 of the Year 2019 COB per Board Resolution No. 3.

9.5. PADC Board Resolution No. 3 reads as follows:

> *"Resolved, considering that Year 2020 is already drawing to a close, to approve the adoption for Year 2020 of the Year 2019 Corporate Operating Budget previously approved by the PADC Board and the Department of Budget and Management;*
>
> *Resolved further, to authorize the Acting President and the CEO to do all things necessary and proper to implement the foregoing, subject to rules and regulations".*

9.6. Based on the Statement of Comparison of Budget and Actual Amounts (SCBAA) for the year ended December 31, 2020, the data on CY 2019 DBM-approved COB and actual sources and uses of funds were gathered:

Table 10 - SCBAA

Particulars	CY 2019 DBM-Approved	Actual Amounts on Comparable Basis
Total Sources:	**158,543,000**	**60,649,303**
Corporate Funds	158,543,000	60,649,303
Total Uses:	**53,380,000**	**37,735,176**
Personnel Services	30,535,000	28,379,185
Maintenance and Other Operating Expenses	12,639,000	9,355,991
Capital Outlay	10,206,000	0
Excess/Shortfall	**105,163,000**	**22,914,127**

9.7. Based on Table 10, it appears that only those recurring expenses were presented as actual uses of funds totaling P22.914 million. However, in CY 2020, PADC used portion of its Corporate Funds for settlement of its liabilities with the Bureau of Internal Revenue (BIR) amounting to P15.415 million.

9.8. The CY 2019 DBM-approved COB explicitly provides the conditions that shall be observed and complied such as:

1. *All expenditures, whether for current operating expenditures or for COs, shall be made within the limits of available funds realized from corporate receipts, authorized corporate borrowings and NG budgetary support neither in form of subsidy, equity or loans outlay;*

2. *Any increase in the approved principal COB in the course of the budget year, as may be warranted by additional corporate receipts, shall require the submission of a supplemental COB to cover the additional expenditures.*

9.9. It is our view that the budget utilization pertaining to the settlement of accounts with the BIR is not covered by the condition that *the COB level shall only be up to the extent of last year's approved budget level, net of non-recurring expenses*.

9.10. **We recommended that Management:**

a. **Henceforth, strictly comply with DBM CBC No. 22 by preparing and submitting its COB to the DBM prior to the beginning of the ensuing fiscal year but not later than December 31 of the current year; and**

b. **Submit the budget source and/or the approval covering the release or disbursement of P15.415 million to the BIR considering that the release or disbursement thereof is not covered by Section 3.4 of DBM CBC No. 22.**

9.11. Management agreed with COA's observation that payment to BIR was not included in the CY 2020 COB since the Board had decided that for 2020 COB, the 2019 reenacted budget will be applied. Further, PADC Management finds it more favorable for PADC to solve its BIR tax deficiencies to be able to secure Tax Clearance and be back to its business. For these reasons, PADC Management respectfully beg the kind indulgence of the Audit Team for considerations of this Management action.

9.12. During the exit conference held on April 28, 2021, Management informed the Audit Team that the P15.415 million funds to cover the payment to the BIR was sourced from PADC Corporate Funds.

9.13. The explanation is duly noted. Compliance with DBM CBC No. 22 is enjoined, and ensure that the utilization of funds is within the level of approved COB.

10. **Unserviceable and condemned properties costing P5.284 million and P221,275, respectively, were not disposed, thereby exposing the properties to further deterioration.**

10.1. The Report on the Physical Count of Property, Plant and Equipment (RPCPPE) as of December 31, 2019 disclosed the condition of the Property and Equipment (PE) owned by the Corporation, as shown below:

Table 11 – 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
Communication Equipment*	0	0	0	0
Tools and Machineries	46,482,809	809,148	857,000	1,614
Motor Vehicles	2,721,327	3,294,548	0	0
Aircraft and Aircraft Ground Equipment*	0	0	0	0
Furniture and Fixtures*	0	0	0	0
Books	34,999	628	0	0
Total as of December 31, 2020	**81,713,083**	**5,284,289**	**867,900**	**221,275**

*Not presented in the Report

10.2. The delayed disposal of unserviceable and condemned PE exposed these assets to further deterioration. In addition, the inclusion thereof in the PE requires that these items have to be counted and reconciled with the accounting records, property ledger cards and per count, which may have caused the delay in the submission of the RPCPPE, the deadline of which is not later than January 31 every year.

10.3. In our view, the Corporation has not benefitted on the continued holding or keeping of the unserviceable and condemned PE costing P5.284 million and P221,275, respectively.

10.4. **We recommended and Management agreed to immediately dispose the unserviceable properties or derecognize in the books the properties and related accounts.**

10.5. The Audit Team will monitor compliance of PADC with the recommendation.

11. PADC was not able to prepare and submit its Gender and Development (GAD) Plan and Budget (GPB) for CY 2020 and implement GAD programs, activities and projects (PAPs).

11.1. Section 7.v of Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and Department of Budget and Management (DBM) Joint Circular No. 2012-01 on the Schedule to be Observed in GAD Planning and Budgeting provides that *January (one year before budget year) is the submission of reviewed GPBs and Accomplishment Reports (ARs) to the PCW.*

11.2. Moreover, Section 5 of COA Circular No. 2014-01 dated March 18, 2014 provides that:

> *The Audited agency shall submit a copy of the Annual GAD Plan and Budget (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 the 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.*

11.3. For CY 2020, PADC was not able to submit its GPB which is a reiteration of previous years' observations. Inquiry disclosed that this is because of some priority matters/works in view of the appointment of the new Acting President and CEO in July 2020.

11.4. The audit further showed that the Corporation was not able to implement GAD related PAPs. The assigned Focal Person retired from the service last April 2020, and the Acting President and CEO issued HR Order No. 03 only on January 20, 2021 creating GAD Committee and Technical Working Group (TWG) assigning a new Focal Point Person.

11.5. **We recommended that Management:**

a. **Require the GAD Focal Point Person to spearhead the preparation of the annual GPB and Accomplishment Report within the deadline set in accordance with the provisions of PCW, NEDA and DBM Joint Circular No. 2012-01; and**

b. **Submit to the Audit Team a copy of the Corporation's GPB and the corresponding accomplishment report as provided in COA Circular No. 2014-001.**

11.6. Management explained that the President was installed as Acting President and CEO on July 15, 2020 while the whole nation was in the midst of COVID 19 pandemic. It was also during this period that physical meetings, seminars, conferences and the like were restricted by Inter-Agency Task Force, COVID 19 of the government. Also, the 2020 budget was decided by the Board to be a 2019-reenacted budget almost at the end of 2020. It is for these reasons that PADC was not able to conduct GAD activities for the year.

11.7. Management further commented that for this year 2021, GAD activities, plans and programs, and projects will be highly implemented as PADC has a new set of officials assigned to GAD activities.

11.8. The Audit Team will monitor compliance of PADC with the recommendations.

12. Compliance with Tax Laws

Taxes withheld for CY 2020 were recognized and remitted within the prescribed period. December 2020 taxes withheld were remitted in January 2021.

13. 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, 2020, including government share. December 2020 statutory deductions were remitted in January 2021.

14. Status of Audit Suspensions, Disallowances and Charges

14.1. As of year-end, the status of Notices of Suspensions, Disallowances and Charges issued are as follows:

Table 12 – Status of Suspensions, Disallowances and Charges

Audit Action	Beginning Balance January 1, 2020	Issued	Settled/ Adjustment	Ending Balance December 31, 2020
Suspensions	0	0	0	0
Disallowances	7,320,736	0	(5,086,401)	2,234,335
Charges	9,259,741	0	0	9,259,741
	16,580,477	0	(5,086,401)	11,494,076

14.2. The above adjustment pertains to the Notices of Disallowances issued prior to the effectivity of 2009 Rules and Regulations of Settlement of Accounts.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 13 audit recommendations embodied in the 2019 Management Letter, one was implemented, six were partially implemented and six were not implemented. Details are as follows:

Reference	Observations	Recommendations	Status of Implementation
Observation No. 1 Page 3	The Philippine Aerospace Development Corporation (PADC) failed to submit the Statement of Management's Responsibility for Financial Statements (SMR) as required under Section 5.2 of COA Circular No. 2017-004 dated December 13, 2017.	Immediately cause the submission to the Audit Team the duly signed SMR for financial statements.	Not Implemented
Observation No. 2 Page 3	The balance of the Merchandise Inventory account of P42.756 million remained unreliable due to Management's consistent non-assessment on the usability and commercial value of the aircraft parts and non-submission of the inventory report as of December 31, 2019.	a. Exert all efforts and avail or explore all feasible means to come up with the correct inventory valuation and make the necessary adjustments to the inventory account; and	Not Implemented Reiterated in Observation No. 1 of this report.
		b. Immediately submit to the Audit Team the Report on Physical Count of Inventories as required under Section 122 of Presidential Decree No. 1445.	Not Implemented Reiterated in Observation No. 1 of this report.
Observation No. 3 Page 5	Representation Allowance and Transportation Allowance (RATA) in the amount of P732,500.00 and P668,818.94 respectively, were erroneously	Prepare reclassification entry to correct the account balances for fair presentation and record the said allowances in its correct accounts in the	Partially Implemented

Reference	Observations	Recommendations	Status of Implementation
	recorded under Representation Expenses and Travelling Expenses-Local accounts thus, resulting in the understatement of the RATA and overstatement of the Representation Expenses and Travelling Expenses – Local for the same amounts.	succeeding period.	
Observation No. 4 Page 6	PADC consistently failed to generate enough revenue from its core business mandate for ten years or more to defray its operating expenses and its continuous operation is sustained primarily by the rental income generated from its leased properties. Thus, affecting the Corporation's sustainability as a going concern.	a. Exert all effort to generate more revenue for the Corporation while in the process of reviewing its existing structures and policies;	Partially Implemented
		b. Make representation with the Bureau of Internal Revenue regarding its tax cases, and/or make appropriate action to possibly acquire/obtain Tax Clearance from the said agency; and	Implemented
		c. Continue with the conduct of comprehensive review of the Corporation's structure, policies and business processes to determine the sustainability of its continuous existence.	Partially implemented Reiterated in Observation No. 5 of this report.
Observation No. 5 Page 10	PADC was not able to allocate at least five percent of its budget for Gender and Development (GAD) programs and	Comply with the required fund allocation for GAD projects and activities which is at least five per cent of the	Not Implemented

Reference	Observations	Recommendations	Status of Implementation
	activities.	Corporation's approved budget.	
Observation No. 6 Page 11	PADC did not prepare its GAD Plan and Budget (GPB) for CY 2019 as mandated in Republic Act (RA) No. 9710 and its Implementing Rules and Regulations (IRR).	a. Require the GAD Focal Point to prepare the annual GPB and Accomplishment report in accordance with the IRR and its prescribed guidelines (PCW-NEDA-DBM Joint Circular No. 2012-001); and b. Submit to the Audit Team a copy of the Corporation's GPB and the corresponding accomplishment report as provided in COA Circular No. 2014-001.	Not implemented Reiterated in Observation No. 11 of this report. Not implemented Reiterated in Observation No. 11 of this report.
Observation No. 7 Page 12	PADC has not declared and remitted to the National Government dividends equivalent to at least 50 per cent of its net earnings for Calendar Years 2014 to 2018 amounting to P23.572 million, as required under Section 3 of RA No. 7656.	Make an immediate follow up and/or representation/dialogue with the concerned officials of the DOF for the resolution of their request for exemption as provided in aforementioned section of the IRR.	Partially implemented
Observation No. 8 Page 14	Delayed or non-submission of financial/accounting reports and records precluded the prompt audit of accounts and financial transactions, early detection and correction of errors/deficiencies and timely reporting of the audit results to the management in	a. Require the Accountant to comply strictly with the timely submission of the required reports to the Office of the Auditor; and b. Instruct the concerned Officials of PADC to look into the cause/s of the late preparation/	Partially implemented Partially implemented

Reference	Observations	Recommendations	Status of Implementation
	contravention with Section 122 of PD 1445 and Sections 7.1.1 and 7.2.1 of COA Circular No. 2009-006 dated September 15, 2009 and other existing regulations.	submission of the required reports and documents and take immediate action to address the problem/concern, so that the reports can be submitted to COA within the deadline.	