Republic of the Philippines

**COMMISSION ON AUDIT**

Commonwealth Avenue, Quezon City

**INDEPENDENT AUDITOR’S REPORT**

DesignatedChairperson

Philippine State College of Aeronautics Board of Trustees

Commission on Higher Education

C.P. Garcia Street, Diliman, Quezon City

President

Philippine State College of Aeronautics

Piccio Garden, Villamor Air Base, Pasay City

**Qualified Opinion**

We have audited the financial statements of the Philippine State College of Aeronautics (PhilSCA), which comprise the Statement of Financial Position as at December 31, 2018, and the Statements of Financial Performance, Changes in Net Assets/Equity, Cash Flows and Comparison of Budget and Actual Amounts for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, except for the effects on the matter discussed in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the PhilSCA as at December 31, 2018, and its financial performance, cash flows, changes in net assets/equity, comparison of budget and actual amounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies in accordance with the Philippine Public Sector Accounting Standards (PPSASs).

**Basis for Qualified Opinion**

As discussed in Part II-Observations and Recommendations of this Report, there were accounting errors and deficiencies observed which affected the fair presentation of the financial statements, as summarized below:

1. The reimbursement for tuition and other related fees for the 1st and 2nd semesters, Academic Year 2018-2019 amounting to ₱118,276,920.00 was not recognized in the books, which is not in accordance with Republic Act (RA) No. 10931, due to non-submission/delayed submission of billing statement to CHED, thus, understated the Due from National Government Agencies (NGAs) and School Fees accounts, by the same amount.
2. Delivered Flight Simulator and its incidental costs were not recognized in the books which understated the Property, Plant and Equipment (PPE) account by ~~P~~8,041,233.16. Moreover, the corresponding fund transfer to DBM-PS was not credited upon its delivery, thereby overstating the Due from NGAs – DBM-PS account by ~~P~~7,999,680.00.
3. Refund of tuition fees collected amounting to ₱21,286,780.00 was erroneously recognized as Other Maintenance and Operating Expenses instead of School Fees Income, thus, overstated the expense account by the same amount.

Furthermore, as discussed in CY 2017 AAR and reiterated in Part III-Status of Implementation of Prior Years’ Audit Recommendations of this Report is the accounting deficiency observed that also affected the fair presentation of the financial statements. The accuracy and completeness of the account Property Plant and Equipment (PPE) amounting to ₱326,182,133.22 as of December 31, 2017 is doubtful due to unrecorded three parcels of land acquired through donation in CYs 2013, 2014, and 2016, contrary to Sections 5 and 13, Chapter 10 on PPE, Volume 1 of the GAM for NGAs.

We conducted our audit in accordance with the 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 the agency in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Responsibilities of Management for the Financial Statements**

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

**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 scepticism throughout the audit. We also:

* Identify and assess the risks of material misstatements 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 of our opinion. The risk of not detecting a material misstatement resulting from fraud is higher 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 IA’s internal control.
* Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management.
* Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements present the underlying transactions and events in a manner that achieves fair presentation.

**COMMISSION ON AUDIT**

By:

**CYNTHIA M. EVASCO**

State Auditor V

Supervising Auditor

Other State Universities

and Colleges Audit Group

Cluster 5 – Education & Employment

National Government Sector

May 16, 2019