



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

ANNUAL AUDIT REPORT

on the

AURORA PACIFIC ECONOMIC ZONE AND FREEPORT AUTHORITY Casiguran, Aurora Province

For the Year Ended December 31, 2013

EXECUTIVE SUMMARY

INTRODUCTION

The Aurora Pacific Economic Zone and Freeport Authority (APECO) is a government owned and controlled corporation created pursuant to Republic Act No. 9490 and amended by Republic Act No. 10083, which is tasked to develop the Aurora Pacific Economic and Freeport Zone (Aurora Ecozone) as a self-reliant and self-sustaining industrial, commercial/trading, agro-industrial, tourist, banking, financial and investment center with suitable residential areas.

As of December 31, 2013, APECO is under the management of Atty. Gerardo D. Erguiza, Jr., President and Chief Executive Officer who assumed office on November 16, 2013. The APECO has 53 regular plantilla positions approved by the DBM for CY 2013. Out of this, only 45 positions were funded. It has a total workforce of 118, an increase of 5 due to filling up of six plantilla position, hiring of eight individuals under contract of service and termination of nine consultants compared to last year's 109 broken down as follows:

Regular Plantilla	38
Consultants	12
Contract of Service	<u>68</u>
Total	<u>118</u>

FINANCIAL HIGHLIGHTS

	<u>2013</u>	<u>2012</u>
A. Financial Condition		
Assets	771,863,342.56	697,031,929.65
Liabilities	9,782,772.05	23,022,267.73
Government Equity	762,080,570.51	674,009,661.92
B. Results of Operation		
Total Income	76,779,141.24	57,181,389.06
Total Expenses	64,338,124.11	60,596,822.72
Excess of Income over Expenses	12,441,017.13	(3,415,433.66)

OPERATIONAL HIGHLIGHTS

The agency implemented a number of major projects during the period under review, some of which are the following:

<u>Programs/Projects/Activities</u>	<u>Statement of Work Accomplished</u>	<u>In Php Million</u>
1. Construction, Rehabilitation and Upgrading of Access Road to APECO Corporate Campus, tourist Destination		

and Airport	100%	57.4
2. Design and Construction of APECO Executive and Staff Housing	100%	35.6
3. Construction of APECO Ice Plant	93.51%	2.9
4. Installation of the electro - mechanical component of the APECO 5 MT Ice plant	100%	5.3
5. Site Development, Design & Planning for the Ninety Hectares Agro Aqua Technopark.	65%	3.6
6. Installation of CCTV Cameras	100%	0.89
7. Installation of Deep Well Drilling for Cold Storage	100%	0.49
8. Installation of Motor Control Panel for Ice Plant	100%	0.38

SCOPE OF AUDIT

The audit covered the accounts and transactions of the Aurora Pacific Economic and Freeport Authority for calendar year 2013. The objectives of the audit were to ascertain the fairness of the presentation of the financial statements, reliability of agency's financial position and the results of its operations; recommend agency improvement opportunities; and determine the extent of implementation of prior year's audit recommendations.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements owing to possible misstatements as stated in Part I of this report and in the succeeding part of this Executive Summary.

SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

Summarized below are the significant audit observations noted in the audit, including the misstatements and possible misstatements referred to above, which are discussed in detail in Part II of this report. Management views and comments were incorporated in the report, where appropriate.

1. The accuracy of the year-end balance of the Property, Plant and Equipment (PPE) account, excluding Land, Motor Vehicles and Watercrafts, amounting to P501,600,727.92 was not established due to (a) failure of management to complete

the conduct of physical inventory contrary to Section 490 of Volume I of the GAAM and Section 66 of the Manual of NGAS, Volume II; and (b) non-maintenance of property card (PC) and Property, Plant and Equipment Card (PPLEC) by the Property Unit and Accounting Office, respectively, contrary to Section 43 of the Manual on NGAS, Volume I.

We reiterated our recommendation that management (a) require the conduct of inventory-taking by Office, supervised by a responsible and competent representative of the Property Unit, and the consolidation of the same by the Inventory Committee created for the purpose; (b) direct the Property Unit and the Accounting Office to observe the procedures on the proper recording of PPE items and the maintenance of subsidiary records for the check and balance; (c) direct the Accounting Office, in coordination with the Property Unit, to perform a reconciliation of PPE account balances in the books with that per inventory results and property records; and (d) instruct the Accounting Office to draw the necessary journal entries based on the results of the reconciliation activity.

We also recommended that management reprimand the erring official who continuously ignore or disregard the regulation.

2. Deficiencies were noted on the grant, utilization and recording of cash advances, to wit: (a) cash advances of P6,511,800.05 were drawn for the procurement of goods and services, including equipment, contrary to Section 3 of COA Circular No. 97-002 thus disregarding the regular procurement procedures; (b) cash advances of P12,517,325.24 for special purposes were granted to employees not designated as disbursing officers and some are not duly bonded contrary to Section 4.1.5 of the same COA Circular and Section 101 of PD No. 1445; (c) no separate cashbooks were maintained for salaries and for petty operating expenses while no new cashbook was used by a newly-appointed accountable officer contrary to Section 6 of the said Circular; and (d) cash advances for travel or under the accountability of employees were recorded under the Due from Officers and Employees account instead of being treated as “Advances to Officers and Employees” contrary to COA Accounting Circular No. 2006-001.

We recommended that management (a) direct all department heads concerned to ensure that all procurements and payments not petty in nature pass thru the regular disbursement process to be paid by check and that the procurement procedures thereon follow the provisions of the Revised IRR of RA 9184; (b) refrain from granting special purpose cash advances to employees not designated as disbursing officers; (c) require all Accountable Officers to be properly bonded; (d) instruct disbursing officers to maintain separate cashbook for salaries/allowances and for petty expenses and require newly-appointed disbursing officers to use a new cashbook; and (e) direct the Accountant to draw a Journal Entry Voucher (JEV) adjusting Due from Officers and Employees and to record Other Receivable for unliquidated cash advances of those employees who are no longer with the agency.

3. The Cashier has not been maintaining the financial records and preparing accountability reports prescribed under Chapters I and II, Volume II of the Manual of NGAS rendering difficulty in the establishment of her accountability at any point in time. Moreover, the checks in the Report of Checks Issued were not reported in chronological order owing to the use of more than one number series at a time contrary with Section 32 of the NGAS Manual, Vol. I, thus verification could not be facilitated.

We recommended that management direct the Cashier to (a) maintain the Cash Receipts Record, Check Disbursement Records and Cash Disbursement Records and prepare and submit the Report of Accountability for Accountable Forms to facilitate early detection and correction of errors and to facilitate immediate detection of accountability; and (b) issue checks in chronological order, use only one booklet at a time and prepare correctly the RCI.

4. Previous year's collections of P14,941.52 remained undeposited for lack of formal turnover of accountability from the former OIC-Cashier to the Senior Cashier contrary to Section 21 of the NGAS Manual, Volume I and Section 77 of Presidential Decree No. 1445, exposing government funds to possible loss, misuse or misappropriation.

We recommended that management (a) exert efforts to contact the former Cashier for the recovery of the undeposited collections under her accountability; and (b) ensure that a formal turnover of accountabilities is observed between the outgoing and incoming accountable officer to prevent loss of funds and records.

5. The initial savings deposit of P5 million with the AuroraBank, a private rural bank, has remained intact and non-moving since the account's opening in July 2012 contrary to the "no-maintaining balance" condition in the Department of Finance's (DOF) approval on the deposit account.

We recommended that management closed the savings account with AuroraBank since it did not strictly comply with the conditions set and approved by DOF in the opening of the deposit account with a private bank.

6. Management failed to secure fidelity bond coverage of its accountable officers contrary to Section 101(2) of PD 1445 and Section 4.1 of Treasury Circular No. 02-2009 dated August 6, 2009, exposing government funds and properties to undue risk of loss without indemnification.

We recommended that management direct all accountable officers concerned to file their application for fidelity bond coverage with the Bureau of Treasury, otherwise, initiate administrative action for their unjustified failure to comply with the law.

7. Ownership over nineteen (19) parcels of land were not transferred/registered in the name of the agency thereby exposing them to third-party claims to the disadvantage of the government.

We recommended that management expedite the transfer of title to its name by exerting efforts in following up with the appropriate government agency/ies and parties to protect the interest of the government.

8. The final tax of P1,192,639.05 withheld from the purchase of land was not remitted to the BIR contrary to Title X, Sections 247 and 251 of the National Internal Revenue Code of 1997 and Section 2.57-1 of the Revenue Regulation 2-98, depriving the government of its immediate utilization for projects/programs beneficial to the citizens.

We recommended that management expedite the completion of the documents and require the immediate remittance of the capital gains tax withheld from the purchase of land to avoid penalties thereon.

9. The use of government motor vehicles was not properly monitored and documented in violation to the provisions of COA Circular No. 77-61 dated September 6, 1977 and Section 4 (6) of PD No. 1445 hence, the accuracy of Gasoline, Oil and Lubricants Expenses account totaling P2,713,675.12 was doubtful. Moreover, the government vehicles did not bear red plates, exposing them to risk of misuse.

We recommended to management the following:

- install control procedures prescribed in COA Circular No. 77-61 to properly regulate and monitor the reasonableness of Gasoline, Oil, and Lubricants Expenses account;
 - require the driver to accomplish properly the Driver's Trip Ticket and to submit regularly the Monthly Report of Fuel Consumption;
 - mark the government vehicles with "For Official Use Only", under which should be written the corresponding name of the agency operating or using the same; and
 - to support the claims with complete documentations.
10. The delayed submission of disbursement vouchers and their supporting documents, ranging from 30 to 163 days, hindered the completion of the audit of accounts and the establishment of the accuracy of the year-end account balances.

We recommended that management direct the Accountant to facilitate the regular submission to COA of the disbursement vouchers and supporting documents within

the prescribed period, otherwise, institute appropriate administrative penal action of the above cited regulation that permits the suspension of payment of their salaries.

11. Management failed to furnish the Auditor within the prescribed period copies of contracts/purchase orders and their supporting documents thus delaying the review and verification of transactions contrary to COA Circular No. 2009-001.

We reiterated our recommendation that management (a) direct the Head of Supply Section to submit to COA copies of purchase orders and perfected contracts and integral parts thereof within five days from their execution; and (b) enforce the penal or administrative sanctions provided in Section 4 of the said circular should the personnel concerned fail to comply with the regulation.

12. The agency failed to comply with Section 28 of RA No. 10352 on the GAD Plan preparation and in observing the guidelines on the preparation and submission of a GAD Accomplishment Report. Moreover, it failed to allocate at least 5% of its total budget to efficiently implement GAD programs, projects or activities.

We recommended that management strictly adhere with Section 28 of RA No. 10352 to efficiently implement GAD programs, projects or activities.

13. The APECO failed to establish an Internal Audit Service contrary to Administrative Order No. 119 and 278 thus there is no unit that performs the review and appraisal of systems and procedures and the organizational structure.

We recommended that management comply with the afore-cited Administrative Orders to improve the agency's existing systems and procedures and strengthen its internal control system.

14. Suspensions and disallowances amounting to P69,376,249.33 and P335,971,118.54, respectively, remained unsettled as of year-end.

We recommended that management require the persons deemed responsible and liable to settle the suspensions and disallowances.

IMPLEMENTATION OF PRIOR YEAR'S RECOMMENDATIONS

Of the nine audit recommendations we have cited in the last year's annual audit report one was partially implemented, six were unimplemented, one was suspended and one was disallowed.



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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Aurora Pacific Economic Zone and Freeport Authority
Casiguran, Aurora Province

We have audited the accompanying financial statements of the Aurora Pacific Economic Zone and Freeport Authority (APECO), Casiguran, Aurora Province which comprise the Balance Sheet as of December 31, 2013, and the related Statement of Income and Expenses, Statement of Charges in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with State accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from materials misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to entity's preparation and fair presentation of the financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for Qualified Opinion

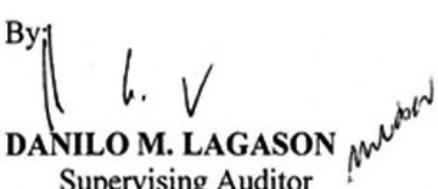
As discussed in the Observations and Recommendations portion of the audit report, the accuracy of the year-end balance of the Property, Plant and Equipment (PPE) account, excluding Land, Motor Vehicles and Watercrafts, amounting to P501,600,727.92 was not established due to (a) failure of management to complete the conduct of physical inventory contrary to Section 490 of Volume I of the GAAM and Section 66 of the Manual of NGAS, Volume II; and (b) non-maintenance of Property Card (PC) and Property, Plant and Equipment Card (PPLEC) by the Property Unit and Accounting Office, respectively, contrary to Section 43 of the Manual of NGAS, Volume I.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of the Aurora Pacific Economic Zone and Freeport Authority as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with State accounting principles.

COMMISSION ON AUDIT

By


DANILO M. LAGASON
Supervising Auditor

28 February 2014

Republic of the Philippines
AURORA PACIFIC ECONOMIC ZONE & FREEPORT AUTHORITY
Casiguran, Aurora

Consolidated Statement of Financial Position
As of December 31, 2013
(With Comparative Figures for CY 2012)

ASSETS

		<u>2013</u>		<u>2012</u>
Current Assets				
Cash (Note 5)	P	61,350,934.41	P	77,759,872.51
Receivables (Note 6)		12,953,194.17		15,761,000.44
Advances (Note 7)		35,406,232.15		37,541,753.86
Inventories (Note 8)		170,437.02		42,152.47
Total Current Assets		<u>109,880,797.75</u>		<u>131,104,779.28</u>
<i>Property, Plant & Equipment</i> (Note 9)		<u>661,982,544.81</u>		<u>565,927,150.37</u>
Total Assets	P	<u><u>771,863,342.56</u></u>	P	<u><u>697,031,929.65</u></u>

LIABILITIES AND EQUITY

<i>Current Liabilities</i> (Note 10)				
Accounts Payable		4,080,431.79		4,698,041.97
Due to Officers and Employees		476,859.26		11,107,387.39
Due to BIR		1,254,088.70		3,468,364.10
Due to GSIS		325,824.98		255,047.03
Due to PAG-IBIG		12,914.82		11,677.32
Due to PHILHEALTH		24,034.10		15,510.50
Guaranty Deposits Payable		3,609,382.22		3,467,003.24
Other Payables		(763.82)		(763.82)
Total Liabilities		<u>9,782,772.05</u>		<u>23,022,267.73</u>
 <i>Government Equity</i> (Note 11)		 <u>762,080,570.51</u>		 <u>674,009,661.92</u>
Total Liabilities and Equity	P	<u><u>771,863,342.56</u></u>	P	<u><u>697,031,929.65</u></u>

(See accompanying Notes to Financial Statements.)

Republic of the Philippines
AURORA PACIFIC ECONOMIC ZONE & FREEPORT AUTHORITY
Casiguran, Aurora

Consolidated Statement of Comprehensive Income
For the Year Ended December 31, 2013
(With Comparative Figures for CY 2012)

		<u>2013</u>		<u>2012</u>
Income <i>(Note 13)</i>				
Subsidy Income from Nat'l Gov't.	P	76,000,000.00	P	55,000,000.00
Interest Income		396,141.24		2,136,189.06
Miscellaneous Income		383,000.00		45,200.00
Total Income		<u>76,779,141.24</u>		<u>57,181,389.06</u>
Expenses				
Personal Services <i>(Note 14)</i>		21,765,206.26		17,136,345.92
Maintenance and Oth. Operating Exp. <i>(Note 15)</i>		42,512,113.80		43,455,113.80
Financial Expenses		60,804.05		5,363.00
Total Expenses		<u>64,338,124.11</u>		<u>60,596,822.72</u>
Excess of Income over Expenses	P	<u><u>12,441,017.13</u></u>	P	<u><u>(3,415,433.66)</u></u>

(See accompanying Notes to Financial Statements.)

Republic of the Philippines
AURORA PACIFIC ECONOMIC ZONE & FREEPORT AUTHORITY
Casiguran, Aurora

Consolidated Statement of Changes in Government Equity
As of December 31, 2013
(With Comparative Figures for CY 2012)

		<u>2013</u>		<u>2012</u>
Government Equity-January 1	P	674,009,661.92	P	592,489,884.02
Add/Deduct:				
Receipt of Cash from Natl. Govt.		80,114,375.00		85,367,307.00
Retained Operating Surplus				
Current Operations		12,441,017.13		(3,415,433.66)
Prior Year's Adjustment		(4,484,483.54)		(432,095.44)
Government Equity - December 31	P	<u><u>762,080,570.51</u></u>	P	<u><u>674,009,661.92</u></u>

(See accompanying Notes to Financial Statements.)

Republic of the Philippines
AURORA PACIFIC ECONOMIC ZONE & FREEPORT AUTHORITY
Casiguran, Aurora

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2013
(With Comparative Figures for CY 2012)

		<u>2013</u>		<u>2012</u>
Cash Flows from Operating Activities				
Cash Inflows				
Subsidy Received from Natl. Gov't	P	156,114,375.00	P	140,367,307.00
Interest Income		373,367.06		2,139,008.96
Refund on Overpayment of Expenses/CA		1,062,095.91		151,016.21
Cancellation of Checks		588,420.03		12,825.00
Cash-Collecting Officers		(130,680.83)		169,626.83
Cash-Disbursing Officers		(8,516,273.19)		8,107,018.86
Unreleased Checks		-		4,296,835.63
Receipt of cash for GSIS loan repayment		15,183.93		-
Sale of Bid Documents and Locator Fees		383,000.00		26,200.00
Total Cash Inflows		<u>149,889,487.91</u>		<u>155,269,838.49</u>
Cash Outflows				
Payment for Operating Expenses		49,735,421.27		46,779,746.75
Advance Payment for Rent		29,210.53		245,872.50
Payment of Payables		6,781,808.55		31,169,293.12
Purchase of Office Supplies		78,174.37		-
Remittance of Tax Withheld		12,864,544.82		12,159,134.06
Advances to Officers and Employees		3,735,686.70		3,247,175.67
Remittance to GSIS, Philhealth & Pag-ibig		1,898,392.85		1,528,033.46
Bank Charge		57,304.05		5,363.00
Total Cash Outflows		<u>75,180,543.14</u>		<u>95,134,618.56</u>
Cash Provided by Operating Activities	P	<u>74,708,944.78</u>	P	<u>60,135,219.93</u>
Cash Flows from Investing Activities				
Cash Outflows				
Payment to Contractors		71,884,817.40		116,780,696.22
Land Acquisition		1,709,000.00		45,995,984.18
Purchased of Property, Plant and Equipt.		17,524,065.48		2,996,314.31
Cash Used by Investing Activities		<u>91,117,882.88</u>		<u>165,772,994.71</u>
Total Cash Provided by Operating , Investing & Financing Activities		(16,408,938.11)		(105,637,774.78)
Add: Cash Balance, January 1		77,759,872.51		183,397,647.29
Cash Balance, December 31	P	<u><u>61,350,934.41</u></u>	P	<u><u>77,759,872.51</u></u>

(See accompanying Notes to Financial Statements.)