



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, 2014

EXECUTIVE SUMMARY

A. *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, 2014, APECO is still 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 2014. Out of this, only 45 positions were funded. It has a total workforce of 124, an increase of 6 due to non-renewal of ten temporary plantilla position, termination of eleven consultants and hiring of an additional twenty seven individuals under contract of service, compared to last year's 118. The current workforce is broken down as follows:

Regular Plantilla	28
Permanent	3
Temporary	23
Co-terminous	2
Consultants	1
Contract of Service	<u>95</u>
Total	<u>124</u>

B. *Financial Highlights*

	<u>2014</u>	<u>2013</u>
Financial Condition		
Assets	866,589,961.01	771,863,342.56
Liabilities	30,083,625.34	9,782,772.05
Government Equity	836,506,335.67	762,080,570.51
Results of Operation		
Total Income	48,717,110.36	76,779,141.24
Total Expenses	51,986,389.65	64,338,124.11
Excess of Income over Expenses	(3,269,279.29)	12,441,017.13
Status of Funds		
Appropriations 2014 GAA (MOOE)	48,500,000.00	76,000,000.00
GAA (CO)	0.00	277,500,000.00
Allotments	48,500,000.00	353,500,000.00
Obligations	48,500,000.00	155,780,930.77

C. Auditor's Opinion

We rendered a qualified opinion on the fairness of presentation of the financial statements owing to errors and possible misstatements involving Cash Advances and Property, Plant and Equipment among other accounts, as enumerated below, including the recommended courses of action on the noted audit exceptions:

1. The agency drew cash advances for the payment of procured goods and services, including equipment. In addition, cash advances were granted to non-permanent appointed officials contrary to Paragraphs 3 and 4.1.4 to 4.1.5 of COA Circular No. 97-002 dated February 10, 1997.

We recommended to the President to (a) direct all department heads concerned to (i) ensure that all procurements and payments not petty in nature pass thru the regular disbursement process to be paid by check; and (ii) follow the provisions of the Revised IRR of RA No. 9184 on the procurement procedures and (b) refrain from granting special purpose cash advances to employees not holding permanent position.

2. The accuracy of the year-end balance of the Property, Plant and Equipment (PPE) account, excluding Land, Motor Vehicles and Watercrafts, amounting to P506,242,590.86 was not established due to (a) failure of management to complete the physical inventory taking contrary to Section 490 of the GAAM, Volume 1 and Section 66 of the Manual of NGAS, Volume II; and (b) non-maintenance of property card (PC) by the Property Unit contrary to Section 43 of the Manual on NGAS, Volume I.

We recommended to the President to (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; (d) instruct the Accounting Office to draw the necessary journal entries based on the results of the reconciliation activity; and (e) reprimand the erring official who continuously ignore or disregard the audit recommendations.

D. Summary of 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. Out of the unliquidated cash advances of P11,224,616.18 granted before December 31, 2011 only P495,445.58 or 4.91% was liquidated as of December 31, 2014, thereby leaving a balance of P10,729,170.60 or 95.59% contrary to the provisions of COA Circular No. 2012-004 dated November 28, 2012.

We recommended that the President exert more efforts to cause the immediate liquidation of cash advances pursuant to COA Circular No. 2012-004 dated November 28, 2014.

2. The reported balance of the Other Receivables totaling to P5,809,292.15 as of December 31, 2014 included the amount of P155,236.69 which remained uncollected for four years now, depriving the use of the fund to other priority projects.

We recommended to the President to make representation with the Congressional Committee on Science and Technology and Engineering (COMSTE) and former officers and employees of Aurora Economic Development Inc. (AEDI) for the collection of the amount.

3. Ownership over 19 parcels of land were not transferred 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.

4. Payments made for the Design and Renovation of APECO Clark Depot were not supported with complete documentation contrary to Section 4 (6) of Presidential Decree No. 1445. Furthermore, Management did not present proof of ownership of the depot.

We recommended that the President submit the required documents and proof of ownership of the property.

5. Out of the P 1,241,519.85 final tax withheld during the previous years for the purchase of land only P 1,035,786.17 or 83.43% was remitted to the Bureau of Internal Revenue (BIR) as of December 31, 2014 depriving the government of its immediate utilization for projects/programs beneficial to the citizens contrary to Section 56 (A)(3) of RA No. 8424 or Tax Reform Act of 1997.

We recommended to the President to expedite the completion of the documents and make proper representation with the BIR to avoid imposition of penalties, otherwise, make the concerned officials and employees liable for the non-remittance of final tax withheld.

6. The use of government motor vehicles was not properly monitored and documented in violation of 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 was doubtful.

We recommended the President to (a) install control procedures prescribed in COA Circular No. 77-61 to properly regulate and monitor the reasonableness of Gasoline, Oil, and Lubricants Expenses account; (b) require the driver to accomplish properly the Driver's Trip Ticket and to submit regularly the Monthly Report of Fuel Consumption; and (c) to support the claims with complete documentations.

7. The agency incurred an overdraft in appropriation contrary to Section 4(1) of Presidential Decree (PD) No. 1445.

We recommended to the President to incur obligations within the limits of its appropriations and seek additional appropriation to cover excess expenditures.

8. Lapses in the submission of financial records, report of accountability for accountable forms, disbursement vouchers and its supporting documents and non-submission of contracts/purchase orders were noted during the year as follows:

(a) The delayed submission of the financial records and report of accountability for accountable forms as prescribed under Chapters I and II, of the Manual of NGAS Volume II prevented the Audit Team to establish the accountability at any point in time of the accountable officers.

We recommended that the President direct the Cashier to submit the Cash Receipts Record, Check Disbursement Records and Cash Disbursement Records and the Report of Accountability for Accountable Forms to facilitate early detection and correction of errors and as well as the determination of accountability.

(b) The delayed submission of disbursement vouchers and their supporting documents hindered the timely audit of accounts and the establishment of the accuracy of account balances.

We recommended that the President direct the concerned officials and employees to facilitate the regular submission to COA of the disbursement vouchers and supporting documents within the prescribed period, otherwise, institute appropriate administrative penal action as prescribed under Section 122 of PD No. 1445.

(c) 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 dated February 12, 2009.

We recommended that the President (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 Paragraph 4 of the aforementioned circular should the personnel concerned fail to comply with the regulation.

9. The agency did not prepare / formulate plans, programs and projects for Senior Citizens and Differently-abled persons related activities for CY 2014 contrary to Section 34 of CY 2014 General Appropriations Act (RA No. 10633).

We recommended that the President prepare and formulate plans, programs and projects intended to address the concerns of senior citizens and differently-abled and instruct the Budget Officer to set aside one percent of the total budget appropriation for its implementation pursuant to prescribed regulations.

10. The agency failed to comply with Section 33 of RA No. 10633 on the Gender and Development (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 the President strictly adhere with Section 33 of RA No. 10633 and other existing laws and regulation to efficiently implement GAD programs, projects or activities.

11. Failure to fill up vacant positions in the Administrative and Finance Department hampered the preparation of the needed reports and other activities necessary in the fulfillment of its goal.

We recommended to the President to fill up all vacant positions instead of hiring contractual to provide effective and efficient operation.

12. Audit disallowances that have accumulated to P416,803,823.44 remained unsettled as of year-end.

We recommended to the President to enforce the settlement of audit disallowance.

13. For CY 2014, the agency has complied with the Bureau of Internal Revenue (BIR) regulation on the withholding of taxes and in the remittance thereof within the reglementary period except for the month of November.

We recommended to the President to continue to be compliant with the afore-cited regulation and direct the Accounting Office to exert efforts to clear the issue surrounding the carry-over beginning balance.

E. Summary of Total Suspensions, Disallowances and Charges at year-end

Audit disallowances accumulated to P416,803,823.44 remained unsettled as of year-end.

F. Status of Implementation of Prior Years' Unimplemented Audit Recommendations

Of the fourteen audit recommendations we have cited in the last year's annual audit report four were fully implemented, three were partially implemented and seven were unimplemented.



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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 Statement of Financial Position as of December 31, 2014, and the related Statement Comprehensive Income, 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

The unliquidated cash advances for time-bound activities amounting to P12.57 million remained outstanding resulting in the understatement of reported expenses, and overstatement of the receivables and equity accounts by the same amount, as discussed in item 1 of Part II of this report.

Also, item 5 discussed the accuracy and existence of the ending balance of Property, Plant and Equipment amounting to P506,242,590.86 was not established by the management due to inadequacy of records maintained by the Accounting Office and the absence of physical inventory of properties.

Qualified Opinion

In our opinion, except for the 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, 2014 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 2015

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

Consolidated Statement of Financial Position
As of December 31, 2014
(With Comparative Figures for CY 2013)

ASSETS

		<u>2014</u>		<u>2013</u>
Current Assets				
Cash (Note 5)	P	120,299,155.31	P	61,350,934.41
Receivables (Note 6)		13,554,011.82		12,953,194.17
Advances (Note 7)		67,828,663.38		35,406,232.15
Inventories		-		170,437.02
Total Current Assets		<u>201,681,830.51</u>		<u>109,880,797.75</u>
Property, Plant & Equipment (Note 8)		<u>664,908,130.50</u>		<u>661,982,544.81</u>
Total Assets	P	<u>866,589,961.01</u>	P	<u>771,863,342.56</u>

LIABILITIES AND EQUITY

<i>Current Liabilities (Note 9)</i>				
Accounts Payable	P	25,366,065.77	P	4,080,431.79
Due to Officers and Employees		428,286.76		476,859.26
Due to BIR		661,729.17		1,254,088.70
Due to GSIS		-		325,824.98
Due to PAG-IBIG		9,289.82		12,914.82
Due to PHILHEALTH		8,871.60		24,034.10
Guaranty Deposits Payable		3,609,382.22		3,609,382.22
Other Payables		-		(763.82)
Total Liabilities		<u>30,083,625.34</u>		<u>9,782,772.05</u>
 <i>Government Equity (Note 10)</i>		 <u>836,506,335.67</u>		 <u>762,080,570.51</u>
Total Liabilities and Equity	P	<u>866,589,961.01</u>	P	<u>771,863,342.56</u>

(See accompanying Notes to Financial Statements.)

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

Consolidated Statement of Comprehensive Income
As of December 31, 2014
(With Comparative Figures for CY 2013)

		<u>2014</u>		<u>2013</u>
Income <i>(Note 12)</i>				
Subsidy Income from Nat'l Gov't.	P	48,500,000.00	P	76,000,000.00
Interest Income		172,750.36		396,141.24
Miscellaneous Income		44,360.00		383,000.00
Total Income		<u>48,717,110.36</u>		<u>76,779,141.24</u>
Expenses				
Personal Services <i>(Note 13)</i>		16,491,982.33		21,765,206.26
Maintenance and Oth. Operating Exp. <i>(Note 14)</i>		35,494,407.32		42,512,113.80
Financial Expenses				60,804.05
Total Expenses		<u>51,986,389.65</u>		<u>64,338,124.11</u>
Excess of Income over Expenses	P	<u>(3,269,279.29)</u>	P	<u>12,441,017.13</u>

(See accompanying Notes to Financial Statements.)

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AURORA PACIFIC ECONOMIC ZONE & FREEPORT AUTHORITY
Casiguran, Aurora

Consolidated Statement of Changes in Government Equity
As of December 31, 2014
(With Comparative Figures for CY 2013)

		2014		2013
Government Equity-January 1	P	762,080,570.51	P	674,009,661.92
Add/Deduct:				
Receipt of Cash from Natl. Govt.		78,375,393.00		80,114,375.00
Retained Operating Surplus				
Current Operations		(3,269,279.29)		12,441,017.13
Prior Year's Adjustment		(680,348.55)		(4,484,483.54)
Government Equity -December 30	P	836,506,335.67	P	762,080,570.51

(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, 2014
(With Comparative Figures for CY 2013)

		2014		2013
Cash Flows from Operating Activities				
Cash Inflows				
Subsidy Received from Natl. Gov't	P	126,875,393.00	P	156,114,375.00
Interest Income		172,750.36		373,367.06
Refund on Overpayment of Expenses/CA		159,720.50		1,062,095.91
Cancellation of Checks		611,865.01		588,420.03
Cash-Collecting Officers				(130,680.83)
Cash-Disbursing Officers				(8,516,273.19)
Unreleased Checks				-
Receipt of cash for GSIS loan repayment				15,183.93
Miscellaneous Income (sale of bid documents, locator's fee, etc.)		44,360.00		383,000.00
Total Cash Inflows		127,864,088.87		149,889,487.91
Cash Outflows				
Payment for Operating Expenses		38,389,534.05		49,735,421.26
Advance Payment for Rent				29,210.53
Payment of Payables				6,781,808.55
Purchase of Office Supplies		4,057,961.29		78,174.37
Remittance of Tax Withheld		3,927,989.28		12,864,544.82
Advances to Officers and Employees		3,945,840.96		3,735,686.70
Remittance to GSIS, Philhealth & Pag-ibig		2,175,433.42		1,898,392.85
Bank Charge				57,304.05
Total Cash Outflows		52,496,759.00		75,180,543.13
Cash Provided by Operating Activities	P	75,367,329.87	P	74,708,944.78
Cash Flows from Investing Activities				
Cash Outflows				
Payment to Contractors		14,673,563.66		71,884,817.40
Land Acquisition				1,709,000.00
Purchased of Property, Plant and Equipt.		1,745,545.31		17,524,065.48
Cash Used by Investing Activities		(16,419,108.97)		(91,117,882.88)
Total Cash Provided by Operating , Investing & Financing Activities		58,948,220.90		(16,408,938.10)
Add: Cash Balance, January 1		61,350,934.41		77,759,872.51
Cash Balance, December 31	P	120,299,155.31	P	61,350,934.41

(See accompanying Notes to Financial Statements.)