



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, 2015

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 (RA) No. 9490 and amended by RA No. 10083, which is tasked to encourage, promote, induce and accelerate the sound and balanced industrial, economic and social development of Aurora and the Northeastern provinces of the country, provide jobs to the people, increase their productivity and their individual and family income, thereby improving the level and quality of their living conditions and through measures that shall effectively attract legitimate and productive foreign investors.

As of December 31, 2015, 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 2015. Out of this, only 31 positions were filled-up. It has a total workforce of 106, a decrease of 18 due to resignation of two but appointment of 5 personnel in the regular plantilla, termination of one consultant and none renewal of 20 contract of service, compared to last year's 124. The current workforce is broken down as follows:

Status of Employment	No.
Regular Plantilla	31
Permanent	5
Temporary	25
Co-terminous	1
Contract of Service	75
Total	106

A financial, compliance and Value-for-Money (VFM) audit was conducted on the transactions and operations of the APECO covering the period January 1 to December 31, 2015. It was conducted to (a) ascertain the level of assurance that may be placed on management assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

B. Financial Highlights

The following comparative data show the financial condition, results of operations and sources and applications of fund of the APECO for CYs 2015 and 2014.

Account	2015	2014	Increase (Decrease)	%
Financial Condition				
Assets	₱813,167,107.13	₱866,589,961.01	₱(53,422,853.88)	6.16%
Liabilities	9,293,289.71	30,083,625.34	(20,790,335.63)	69.11%
Government Equity	803,873,817.42	836,506,335.67	(32,632,518.25)	3.90%
Results of Operation				
Income	21,237,484.58	48,717,110.36	(27,479,625.78)	56.41%
Expenses	52,600,873.40	51,986,389.65	614,483.75	1.18%
Excess of Income over Expenses	(31,363,388.82)	(3,269,279.29)	(28,094,109.53)	859.34%
Sources and Application of Funds				
Allotments	40,000,000.00	48,500,000.00	(8,500,000.00)	17.53%
Obligations	40,000,000.00	48,500,000.00	(8,500,000.00)	17.53%

C. Independent Auditor's Report

We rendered a qualified opinion on the fairness of the financial statements presentation for the year ended December 31, 2015 owing to the unreliability of the balances of Property, Plant and Property (PPE) accounts as of year-end amounting ₱510,965,071.29 due to the overstatement by undetermined amount of the balances of two PPE accounts and the absence of assessment reports to determine the value of the damages on the properties of APECO destroyed by typhoons for proper recording in the books of accounts.

For the above error/deficiency, we recommended that the President initiate the conduct of assessment on the extent of damages/destruction on the properties of APECO for subsequent recording in the books of accounts for fair presentation of their value on the financial statements.

D. Summary of Significant Observations and Recommendations

Summarized below are the other significant audit observations with their recommendations the details of which are presented in Part II of this report. Management views and comments were incorporated in the report, where appropriate.

1. Lapses in the cash management such as (a) lack of proper planning for projects/activities paid out of cash advances; (b) grant of additional cash advance despite the failure to liquidate the previous ones; (c) drawing of cash advances for expenses that were personal in nature; (d) granting of cash advance to non-permanently appointed officials; (e) absence of documents to support the recorded liquidations; and (f) non-liquidation of cash advances of ₱12,922,029.54 as of December 31, 2015 were contrary to COA Circular Nos. 97-002 dated February 10, 1997, 2012-001 dated 14 June 2012,

and 2012-004 dated November 28, 2012, Sections 4, 61 and 93 of PD No.1445 and Sections 48 and 7.2 of RA No. 9184 otherwise known as the Government Procurement Reform Act resulted in unwarranted drawing of cash advances, excessive amount of cash advances and exposure of such excessive funds to possible misappropriation and/or unauthorized use, doubtful utilization of cash advances, delayed recognition of assets and expenses which were paid out of said cash advances, and undue exclusion of procurements paid out of cash advances from withholding tax. (*Observation No. 1*)

We recommended that the President, through the (a) Bids and Awards Committee (BAC) make proper planning of procurement; (b) Accountant (i) stop the practice of granting additional cash advances to those who have unliquidated cash advances and to those employees not holding permanent position; (ii) refrain from paying expenses that are personal in nature and require the refund of the amount paid therefor; (iii) discontinue the grant of cash advance to non-permanent or not duly designated/appointed disbursing officers; (iv) submit to the Audit Team of the documents needed to support the recorded liquidations; (v) cause the immediate liquidation of cash advances; and (vi) observe the limits in the grant of cash advances in accordance with COA Circular No. 97-002.

2. As of year-end, the ownership over the 19 parcels of land with procured cost of ₱14,120,820.82 were not yet transferred in the name of APECO owing to delayed settlement/payment of capital gains tax thereby exposing the rights/ownership of APECO to the property to possible risk. (*Observation No. 4*)

We recommended that the President, through the Legal Officers of APECO, (a) make a follow-up on its request to Bureau of Internal Revenue (BIR) on the condonation of surcharges and penalties; and (b) thereafter, work on the immediate titling of the 19 lots.

3. For five years, the APECO incurred an overdraft of ₱29,032,144.85 in appropriation, contrary to Section 4(1) of PD No. 1445 and the Special Allotment Release Orders (SAROs). (*Observation No. 6*)

We recommended that the President (a) exercise diligence in the use of government funds by ensuring the obligations are incurred within the limits of approved SARO/appropriation; (b) request for the release of NCA for the remaining balance of ₱20,000,000.00 of the CY 2015 budget; and (c) Corporate Budget Specialist (i) upon receipt of the NCA, return the amount corresponding to the portion of respective project funds that were used; and (ii) refrain from obligating the funds in excess of the approved SARO/budget.

4. As of end of CY 2015, the iceplant facility costing ₱9,783,594.29 remained unutilized since its completion in June 2013 as the cost to operate the same outweighed the expected revenues to be generated therefrom. Such situation should have been foreseen in the feasibility study for the project. As a result, the facility is subject to

harmful natural elements and obsolescence due to fast changing/evolving technology related thereto. (*Observation No.15*)

We recommended that the President exert sufficient efforts to cause the operation of the Iceplant to generate additional revenue for the ecozone.

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

Audit suspensions and disallowances of ₱5,379,457.80 and ₱416,754,499.32, respectively, remained unsettled as of December 31, 2015.

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

Of the 26 audit recommendations we have cited in the prior years' Annual Audit Report one was fully implemented, four were partially implemented and 21 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, 2015, and the related Statement of Comprehensive Income, Statement of Changes 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 Part II of the report, the accuracy of the balances of Property, Plant and Equipment (PPE) accounts as of year-end amounting to ₱510,965,071.29 was unreliable due to the overstatement by undetermined amount of the balances of two PPE accounts and the absence of assessment reports to determine the value of the damages on the properties of APECO destroyed by typhoons for proper recording in the books of accounts.

Qualified Opinion

In our opinion, except for the effects and 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, 2015 and its financial performance and its cash flows for the year then ended in accordance with State accounting principles.

COMMISSION ON AUDIT

By:


VIRGINIA A. YACAT
OIC-Supervising Auditor

24 May 2016

AURORA PACIFIC ECONOMIC ZONE & FREEPORT AUTHORITY
Statement of Financial Position
As of December 31, 2015
(With Comparative Figures for CY 2014)

	Note	2015	2014
ASSETS			
Current Assets			
Cash	5 P	43,463,868.88	P 120,299,155.31
Receivables	6	13,857,808.00	13,554,011.82
Advances	7	50,413,061.41	67,828,663.38
Total Current Assets		107,734,738.29	201,681,830.51
Property, Plant & Equipment-Net	8	705,432,368.84	664,908,130.50
TOTAL ASSETS		P 813,167,107.13	P 866,589,961.01
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts Payable	9 P	4,597,261.23	P 25,366,065.77
Due to Officers and Employees		295,175.29	428,286.76
Due to BIR		366,518.81	661,729.17
Due to GSIS		70,324.63	-
Due to PAG-IBIG		8,696.60	9,289.82
Due to PHILHEALTH		9,289.82	8,871.60
Guaranty Deposits Payable		3,946,023.33	3,609,382.22
Total Liabilities		9,293,289.71	30,083,625.34
GOVERNMENT EQUITY		803,873,817.42	836,506,335.67
TOTAL LIABILITIES AND EQUITY		P 813,167,107.13	P 866,589,961.01

(See accompanying Notes to Financial Statements.)

AURORA PACIFIC ECONOMIC ZONE & FREEPORT AUTHORITY
Statement of Comprehensive Income
As of December 31, 2015
(With Comparative Figures for CY 2014)

	Note	2015	2014
Income	11		
Subsidy Income from Nat'l Gov't.	P	20,000,000.00	P 48,500,000.00
Interest Income		198,149.38	172,750.36
Rent Income		16,835.20	-
Other Business Income		4,000.00	-
Miscellaneous Income		1,018,500.00	44,360.00
Total Income		21,237,484.58	48,717,110.36
Expenses			
Personnel Services	12	17,194,560.65	16,491,982.33
Maintenance and Other Operating Expense	13	35,406,312.75	35,494,407.32
Total Expenses		52,600,873.40	51,986,389.65
Excess of Income over Expenses		(31,363,388.82)	(3,269,279.29)

(See accompanying Notes to Financial Statements.)

AURORA PACIFIC ECONOMIC ZONE & FREEPORT AUTHORITY
Statement of Changes in Government Equity
As of December 31, 2015
(With Comparative Figures for CY 2014)

	Note	2015	2014
Government Equity-January 1	10 P	836,506,335.67	P 762,080,570.51
Add/Deduct:			
Receipt of Cash from Natl. Govt.		-	78,375,393.00
Retained Operating Surplus			
Current Operations		(31,363,388.82)	(3,269,279.29)
Prior Year's Adjustment		(1,269,129.43)	(680,348.55)
Government Equity -December 30	P	803,873,817.42	P 836,506,335.67

(See accompanying Notes to Financial Statements.)

AURORA PACIFIC ECONOMIC ZONE & FREEPORT AUTHORITY

Statement of Cash Flow Statement

As of December 31, 2015

(With Comparative Figures for CY 2014)

	Note	2015	2014
Cash flow from Operating Activities			
Cash Inflows:			
Receipt of Subsidy Income from National Gov't.	P	20,000,000.00	P 126,875,393.00
Receipt of Refund of Cash Advance		58,644.40	159,720.50
Receipt of Refund from Contractor		700,000.00	-
Receipt of Refund of MOOE/PS		14,161.17	-
Collection of Rent Income		13,960.00	-
Collection of Other Business Income		4,000.00	-
Collection of Miscellaneous Income		1,018,500.00	44,360.00
Collection of Interest from Deposits		229,184.65	172,750.36
Collection of Receivables- Disallowances		17,000.00	-
Cancellation of Payroll/Checks		589,764.95	611,865.01
Correction of PY's Income		(39,595.68)	-
Total Cash Inflows		22,605,619.49	127,864,088.87
Cash Outflows:			
Granting of Cash Advances		2,955,289.00	3,945,840.96
Payment of Operating Expenses		38,670,225.81	38,389,534.05
Payment of Office Supplies, Other Supplies, Medical and Dental Supplies		121,525.16	4,057,961.29
Payment of Tax Refund, over deduction of loan		51,383.21	-
Remittance of Taxes Withheld		7,141,412.10	3,927,989.28
Remittance to GSIS, PAG-IBIG, PHILHEALTH		3,155,780.42	2,175,433.42
Remittance to AuroraBank (loan payment)		1,357,217.33	-
Total Cash Outflows		53,452,833.03	52,496,759.00
Total Cash Provided (used) by Operating Activities		(30,847,213.54)	75,367,329.87
Cash flow from Investing Activities			
Cash Inflows:			
Total Cash Inflows		-	-
Cash Outflows:			
Payment to Contractors		10,198,581.47	14,673,563.66
Purchase of Property, Plant and Equipment		35,789,491.42	1,745,545.31
Total Cash Outflows		45,988,072.89	16,419,108.97
Total Cash Provided (used) by Investing Activities		(45,988,072.89)	(16,419,108.97)
Cash Provided by Operating, Investing Activities			
Add: Cash, Beginning		120,299,155.31	61,350,934.41
Cash, Ending	5 P	43,463,868.88	P 120,299,155.31