



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, 2017

EXECUTIVE SUMMARY

A. Introduction

The Aurora Pacific Economic and Freeport Zone (APECO) was created through the enactment of Republic Act No.10083 an act amending Republic Act No. 9490, otherwise known as the “Aurora Special Economic Zone Act of 2007 which lapsed into law on April 22, 2010.

It established a special economic zone and freeport area now referred to as the Aurora Economic Zone and Freeport and managed by Aurora Pacific Economic Zone and Freeport Authority (APECO). The Aurora Ecozone covers two parcels of land namely; parcel 1, situated in barangays of Dibet and Esteves, Municipality of Casiguran, Aurora Province, and parcel 2, situated in the barangays of San Ildefonso, Cozo and Culat, Municipality of Casiguran, Aurora Province.

As cited in R.A. No. 10083, the Aurora Ecozone shall be developed into and operated as a decentralized, self-reliant and self-sustaining industrial, commercial/trading, agro-industrial, tourist, banking, financial and investment center with suitable residential areas.

The APECO is under the management of Mr. Israel F. Maducdoc, President and Chief Executive Officer who assumed office on January 01, 2016. The APECO has 53 regular plantilla positions approved by the DBM for CY 2017. Out of this, only 32 positions were filled-up. The total workforce totalling 126 consists of 3 permanent, 24 temporary, 5 co-terminous, and 94 contract of service.

B. Financial Highlights

The following comparative data show the financial condition, results of operation and sources and applications of fund of the APECO for CYs 2016 and 2017.

Account	2017	2016	Increase (Decrease)	%
<i>Financial Condition</i>				
Assets	₱1,028,253,743.19	₱956,006,932.38	₱72,246,810.81	7.56%
Liabilities	20,169,971.33	13,529,893.61	6,640,077.72	49.08%
Government Equity	1,008,083,771.86	942,477,038.77	65,606,733.09	6.96%
<i>Results of Operation</i>				
Revenue and Assistance/ Subsidy	51,388,942.87	62,652,834.50	(11,263,891.63)	(17.98)%
Expenses	51,005,265.94	54,284,989.99	(3,279,724.05)	(6.04)%
Surplus/(Deficit)	383,676.93	8,367,844.51	(7,984,167.58)	95.42%

C. Scope of Audit

The audit covered the financial transactions and operations of APECO for the year ended December 31, 2017. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing and we believe that it provided reasonable basis for the audit results.

The objectives of the audit were to (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations. The thrust areas identified in the audit instructions were audited on sampling basis and the findings are incorporated in Part II of the report, itemized as follows:

1. Financial Audit

- a. Cash and Cash Equivalents
- b. Receivables
- c. Property, Plant and Equipment
- d. Lease Agreements
- e. Subsidy from National Government

2. Compliance Audit

- a. Compliance with R.A. No. 9184
- b. Compliance with BIR Rules and Regulations
- c. Compliance with R.A. No. 8291 (GSIS)
- d. Compliance with R.A. 9679 (Pag-IBIG)
- e. Compliance with Section 3(1) of E.O. No. 518 dated January 23, 1979; Section 5.2 of J.C. No. 1-82 dated January 4, 1982; and FY 2017 GAA relative to subsidies from the National Government
- f. Compliance with the inventory and insurance of all insurable assets and interest of the government

3. Performance Audit

4. Other Audit Areas

- a. Gender and Development
- b. Outstanding Legal Cases
- c. Hiring of Casuals, Job Orders, Contract of Service, and Consultants
- d. Payment of allowances, benefits and other emoluments

D. Independent Auditor's Report

We rendered a qualified opinion on the fairness of the financial statements presentation for the year ended December 31, 2017 because as discussed in Part II of the report (a) the accuracy of the balance of the Cash remained doubtful due to accumulation of reconciling items in the bank reconciliation amounting to ₱57,397,387.35; (b) inaccurate PPE balance due to (i) unresolved variance of ₱6,571,105.28 between the General ledger balances and the Report on the Physical Count of Property, Plant and Equipment (RPCPPE); (ii) unrecognized impairment of unserviceable properties and major damages of ₱31,160,441.26; and (iii) inaccurate valuation of donated property of ₱567,898.49; and (c) unsubmitted and unvalidated transactions in CY 2017 amounting to ₱46,551,623.23 or at least 33% of the agency's total cash outflow. The foregoing represents reservations on the

accuracy and/or reasonableness of the balances of expense and capital outlays incorporated in the agency's financial statements.

We recommended that the President:

(a) For the accuracy of Cash account which remained doubtful, direct the personnel liable to (i) instruct the accounting and cashiering departments to regularly and timely conduct reconciliation of bank accounts and ensure that all transactions have been recorded completely and accurately and are adequately documented; (ii) require the accountant to explain the unreconciled items in the bank reconciliations and effect the necessary adjustments in the books.

(b) For inaccurate PPE balance, (i) instruct the Accounting Office to (1) continue to coordinate with the Property Office for the complete reconciliation of their respective records on PPE; (2) complete the records maintained for PPEs; (3) provide Allowance for Impairment Loss on damaged property and unserviceable property; and (ii) create a committee that would determine the assessed value of the donated property, and thereafter, furnish the Accounting Office with a copy of their report on the result of said assessments for proper recognition in the books; and

(c) For unsubmitted and unvalidated transactions for CY 2017, instruct the Corporate Finance Service Chief to strictly comply with the rules, regulations, and deadlines on the submission of financial reports, its supporting schedules and disbursement vouchers and impose the sanction mentioned in Section 122 of PD 1445 for non-compliance.

E. Summary of Other Significant Audit 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. Several lapses/deficiencies were noted in the collection, remittance, disbursement, and recording processes both in Mall of Asia (MOA) Satellite Office and in Casiguran Corporate Campus such as (a) Inadequate physical controls for safeguarding cash assets; (b) Insufficient manpower in the cashier department and lack of regular monitoring of outputs; (c) Issuance of official receipt, deposit of collections, and payment of payroll by unauthorized personnel; (d) Issuance of checks despite non-compliance with the procedural and documentary requirements on disbursements; and (e) Stale checks not yet cancelled and adjusted in the books, thus rendering ineffective internal control system over cash, cash management and accountable forms. ***(Observation No. 1 (a) to (e), and (g))***

We recommended that the President ensures that existing policies and specific control measures in cash management are adhered to in order to address the lapses noted to wit: (a) restrict physical access to cash and accountable forms by providing a safety vault for the use of the Senior Cashier and the AO's, and security boxes to PCF custodians; (b) provide the Cashier department with additional competent staff who can be designated as

collectors, prepare reports, and serve as back-up personnel in case of prolonged absence by the Cashier; (c) require the Cashier to prohibit the use of temporary receipt for all types of collection; (d) require the Accountant to (i) strictly comply with the prescribed process flows for procurements and disbursements; and (ii) observe the guidelines set by Section 44, Chapter 6, Volume I of GAM on the accounting for cancelled checks.

2. Some lapses in property management were observed that prevented the effective establishment of accountability thereon which were not in conformity with Section 102(1) of PD No. 1445 and Chapter 10, Section 42 of the GAM. **(Observation No. 2 (d) and (e))**

We recommend that the President (a) instruct the Accounting Office to complete the records maintained for PPEs; (b) require the Property Officer to (i) attend trainings on Property and Supply Management to be updated on the required procedures and records to be maintained by the Property Office; and (ii) work on the eventual disposal of unserviceable items in accordance with the prescribed procedures;

3. Due to lack of firm resolve and seeming mismatch of personnel competence with the work at hand, monthly submission of financial statements and its supporting schedules, disbursement vouchers, copies of contracts/purchase orders were not submitted within the prescribed period, thus depriving senior management of timely validated inputs on the results and status of its operations, and prevented timely audit of transactions, contrary to Section 60, Chapter 19, Volume I of the Government Accounting Manual and Section 122(1) of PD No. 1445. **(Observation No. 3 (a) and (c))**

We recommend that the President (a) remind and/or clarify the duties and responsibilities of the Corporate Finance Services Chief (CFSC) and all others who are responsible in the preparation and submission of financial reports, schedules, contracts/purchase orders and disbursement vouchers; (b) instruct the (i) Property Officer to submit copies of contracts/purchase orders, (ii) BAC Secretary to timely submit procurement documents on infrastructure projects; and (c) if necessary, send the concerned personnel to relevant trainings; (iv) Legal Officer to submit copies of all the contracts and MOA entered into by APECO, abstracts of Board Meetings/Resolutions, list of all outstanding legal cases with amount involved and probable outcome, and list of final and executory decision on legal cases.

4. Due to non-observance by the Finance Department of existing rules and regulations on liquidation of cash advances, advances totaling ₱13,5567,835.28 remained unliquidated as of December 31, 2017 of officials and employees of the agency which resulted in delayed recognition of expenses and exposure of unused cash advances. Meanwhile, liquidations of ₱115,200.00 were not adequately documented which cast doubt on the regularity of the disbursements made out of said advances. Moreover, liquidations were made through installments. **(Observation No. 4)**

We recommended that the President instruct the Corporate Finance Chief to (a) require the concerned personnel to liquidate their cash advances as soon as the purpose thereof had been accomplished; (b) demand for the liquidation of all cash advances as required under

COA Circular No. 97-002, and COA Memorandum No. 2014-014; (c) consider the write-off of dormant receivable accounts and unliquidated cash advances which meet the requirements of write-off as prescribed in COA Circular No. 2016-005, (e) submit to the Audit Team of the documents needed to support the recorded liquidations of the remaining ₱115,200.00 cash advance; and (f) enforce immediate and one-time liquidation of cash advances.

5. After nine years of investing activities using at least one billion pesos of Capital Outlay in the development of Aurora Pacific Economic Zone and Freeport Authority (APECO), it has yet to present significant desirable outcomes and would be hard put to be fully operational as targeted within the next four years, due to major lapses in planning, inefficient investment programming and unsupportive personnel actions thus, timely realization of the promised development and progress to the residents of Casiguran and the Province of Aurora is not certain. (*Observation No. 9*)

We recommended that the President (a) ensure that urgent necessary actions are taken to maximize the use of funds that were put into the corporation through, but not limited to, the following courses of actions: (i) meticulous review by officials concerned of the projects before approval; (ii) ensure that the projects are appropriate and suitable to the weather situation of Casiguran, Aurora; and (iii) see to it that a feasibility study is made for projects that require huge amounts of capital outlay; (b) meanwhile, hold liable the person who prepared, recommended and approved the projects that has faulty and bereft of a diligent study; (c) compel the DENR to submit the required report on the metes and bounds of the San Ildefonso Peninsula; and (d) ensure the following (i) issue appointment in permanent status to attract personnel suitable to the agency's functions and standards; (ii) meticulously review and evaluate the accomplishment of the contract of service before renewing the contract; and (iii) hire officials and staff with the necessary qualifications and competence required to manage and promote the ecozone.

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

Audit suspensions and disallowances of ₱375,314.90 and ₱416,718,340.56, respectively, remained unsettled as of December 31, 2017.

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

Of the 28 audit recommendations we have cited in the prior years' Annual Audit Report ten were fully implemented, 11 were partially implemented and seven were unimplemented.



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, 2017, and the related Statement of Financial Performance, Statement of Comparison of Budget and Actual Amounts, 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 Philippine Public Sector Accounting Standards, 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.

Bases for Qualified Opinion

As discussed in Part II of this report, (a) the balance of the Cash remained doubtful due to accumulation of unrecorded reconciling items disclosed in the bank reconciliation amounting to ₱57,397,387.35; (b) inaccurate PPE balance due to (i) unresolved variance of ₱6,571,105.28 between the General (GL) balances and the Report on the Physical Count of Property, Plant and Equipment (RPCPPE); (ii) unrecognized impairment of unserviceable properties and major damages of ₱31,160,441.26; and (iii) inaccurate valuation of donated property of ₱567,898.49; and (c) unsubmitted and unvalidated transactions in CY 2017 amounting to ₱46,551,623.23 or at least 33% of the agency's total cash outflows present reservations on the accuracy and/or reasonableness of the balances of expense and capital outlays incorporated in the agency's financial statements.

Qualified Opinion

In our opinion, except for the effects and the possible effects of the matters described in the *Bases for Qualified Opinion* paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Aurora Pacific Economic Zone and Freeport Authority as at December 31, 2017 and its financial performance and its cash flows for the year ended in accordance with Philippine Public Sector Accounting Standards.

COMMISSION ON AUDIT

By:


MADONNA S. ATENCION
Supervising Auditor

27 February 2018

AURORA PACIFIC ECONOMIC ZONE AND FREEPORT AUTHORITY

Condensed Statement of Financial Position

As at December 31, 2017

(With Comparative Figures for CY 2016)

	<i>Note</i>	2017	2016
ASSETS			
Current Assets			
Cash and Cash Equivalents	5	₱ 82,774,247.46	₱ 105,352,650.54
Receivables, Net	6	14,509,740.98	15,007,468.76
Inventories	7	92,676.50	0.00
Other Current Assets	8	55,455,739.94	68,295,369.59
Total Current Assets		152,832,404.88	188,655,488.89
Non-Current Assets			
Property, Plant and Equipment-Net	9	875,421,338.31	767,351,443.49
Total Non-Current Assets		875,421,338.31	767,351,443.49
Total Assets		1,028,253,743.19	956,006,932.38
LIABILITIES			
Current Liabilities			
Financial Liabilities	10	6,894,260.63	5,793,591.56
Inter-Agency Payables	11	1,240,122.06	1,199,817.51
Trust Liabilities	12	12,035,588.64	6,536,484.54
Total Current Liabilities		20,169,971.33	13,529,893.61
Total Liabilities		20,169,971.33	13,529,893.61
Net Assets (Total Assets Less Total Liabilities)		₱ 1,008,083,771.86	₱ 942,477,038.77
NET ASSETS/EQUITY			
Government Equity		₱ 1,008,083,771.86	₱ 942,477,038.77
Total Net Assets/Equity		₱ 1,008,083,771.86	₱ 942,477,038.77

The notes on pages 9 to 24 form part of these statements.

AURORA PACIFIC ECONOMIC ZONE AND FREEPORT AUTHORITY
Condensed Statement of Financial Performance
For the Year Ended December 31, 2017
(With Comparative Figures for CY 2016)

	<i>Note</i>	2017	2016
Revenue			
Service and Business Income	<i>13</i>	₱ 11,388,942.87	₱ 2,652,834.50
Total Revenue		11,388,942.87	2,652,834.50
Current Operating Expenses			
Personnel Services	<i>14</i>	20,294,869.55	19,220,997.42
Maintenance and Other Operating Expenses	<i>15</i>	26,403,347.13	31,037,290.48
Non-Cash Expenses	<i>16</i>	4,307,049.26	4,026,702.09
Total Current Operating Expenses		51,005,265.94	54,284,989.99
Surplus/(Deficit) from Current Operations		(39,616,323.07)	(51,632,155.49)
Net Assistance/Subsidy	<i>17</i>	40,000,000.00	60,000,000.00
Surplus/(Deficit) for the Period		₱ 383,676.93	₱ 8,367,844.51

The notes on pages 9 to 24 form part of these statements.

AURORA PACIFIC ECONOMIC ZONE AND FREEPORT AUTHORITY

Statement of Changes in Net Assets/Equity

For the Year Ended December 31, 2017

(With Comparative Figures for CY 2016)

	<i>Notes</i>	Accumulated Surplus/(Deficit)	Government Equity		Total
BALANCE AT JANUARY 1, 2016		(32,632,518.25)	₱ 836,506,335.67	₱	803,873,817.42
Adjustments:					
Add/(Deduct):					
Prior Period Errors		945,088.84	0.00		945,088.84
RESTATED BALANCE AT JANUARY 1, 2016		(31,687,429.41)	836,506,335.67		804,818,906.26
Changes in Net Assets/Equity for the CY 2016					
Add/(Deduct):					
Surplus/(Deficit for the period)		8,367,844.51	0.00		8,367,844.51
Receipt of Equity from National Government			129,290,288.00		129,290,288.00
BALANCE AT DECEMBER 31, 2016		(23,319,584.90)	₱ 965,796,623.67	₱	942,477,038.77
Adjustments:					
Add/(Deduct):					
Prior Period Errors	<i>4</i>	(588,429.84)	0.00		(588,429.84)
RESTATED BALANCE AT JANUARY 1, 2017		(23,908,014.74)	965,796,623.67		941,888,608.93
Changes in Net Assets/Equity for the CY 2017					
Add/(Deduct):					
Surplus/(Deficit for the period)		383,676.93	0.00		383,676.93
Receipt of Equity from National Government		0.00	65,811,486.00		65,811,486.00
BALANCE AT DECEMBER 31, 2017		(23,524,337.81)	₱ 1,031,608,109.67	₱	1,008,083,771.86

The notes on pages 9 to 24 form part of these statements.

AURORA PACIFIC ECONOMIC ZONE AND FREEPORT AUTHORITY

Condensed Statement of Cash Flows
For the Year Ended December 31, 2017
(With Comparative Figures for CY 2016)

	<i>Note</i>	2017	2016
Cash flows from Operating Activities			
Cash Inflows:			
Collection of Revenue		₱ 11,391,443.17	₱ 2,638,124.18
Receipt of Assistance/Subsidy		105,811,486.00	189,290,288.00
Other Receipts		196,458.54	185,978.79
Total Cash Inflows		117,399,387.71	192,114,390.97
Adjustments		241,147.49	179,270.00
Adjusted Cash Inflows		117,640,535.20	192,293,660.97
Cash Outflows:			
Payment of Expenses		63,969,230.10	39,531,361.63
Grant of Cash Advances		57,987.08	608,542.00
Remittance of Personnel Benefit Contributions and Mandatory Deductions		15,102,957.38	12,463,731.24
Other Disbursements		0.00	0.00
Total Cash Outflows		79,130,174.56	52,603,634.87
Adjustments		30,000.00	191,432.09
Adjusted Cash Outflows		79,160,174.56	52,795,066.96
Net Cash Provided by Operating Activities		38,480,360.64	139,498,594.01
Cash flows from Investing Activities			
Cash Inflows:		0.00	0.00
Total Cash Inflows		0.00	0.00
Cash Outflows:			
Purchase/Construction of Property, Plant and Equipment		61,058,763.72	77,609,812.35
Total Cash Outflows		61,058,763.72	77,609,812.35
Net Cash Used in Investing Activities		(61,058,763.72)	(77,609,812.35)
Net Increase/ Decrease in Cash and Cash Equivalents		(22,578,403.08)	61,888,781.66
Cash and Cash Equivalents, January 1		105,352,650.54	43,463,868.88
Cash and Cash Equivalents, December 31	5	₱ 82,774,247.46	₱ 105,352,650.54

The notes on pages 9 to 24 form part of these statements.