



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, 2018

EXECUTIVE SUMMARY

A. Introduction

The Aurora Pacific Economic and Freeport Zone (APECO) was created through the enactment of Republic Act No.9490 as amended by Republic Act No. 10083, otherwise known as the “Aurora Special Economic Zone Act of 2007.

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 2018. Out of this, only 32 positions were filled-up. The total workforce totaling 132 consists of 16 permanent, 12 temporary, 4 co-terminous, and 100 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 2017 and 2018.

Account	2018	2017	Increase (Decrease)	%
Financial Condition				
Assets	₱ 1,048,788,149.65	₱1,028,253,743.19	₱ 20,534,406.46	1.96%
Liabilities	24,897,349.75	20,169,971.33	4,727,378.42	18.99%
Government Equity	1,023,890,799.90	1,008,083,771.86	15,807,028.04	1.54%
Results of Operation				
Revenue and Assistance/ Subsidy	80,087,962.62	51,388,942.87	28,699,019.75	35.83%
Expenses	58,316,437.78	51,005,265.94	7,311,171.84	12.54%
Surplus/(Deficit)	₱ 21,771,524.86	₱ 383,676.93	₱ 21,387,847.93	98.24%

C. Scope of Audit

The audit covered the financial transactions and operations of APECO for the year ended December 31, 2018. 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. 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, 2018 because as discussed in Part II of the report (a) the balance of the Cash remained doubtful due to accumulation of unrecorded reconciling items disclosed in the bank reconciliation amounting to ₱13,735,396.17; (b) inaccurate PPE balance due to (i) long outstanding Construction in Progress (CIP) account amounting to ₱370,836,756.61; (ii) unrecorded depreciation of the Infrastructure Asset and Buildings and Other Structures with carrying amount of ₱137,207,067.21 and ₱70,375,387.00, respectively; (iii) unrecorded impairment of damaged and unserviceable property totaling to ₱26,097,611.12; (iv) doubtful Other Infrastructure Asset balance of ₱7,400,000.00; (v) inaccurate recording of donation expense in Other Structures of ₱1,500,000.00; (vi) inaccurate valuation of donated property of ₱567,898.49; and (vii) failure to meet the capitalization threshold on various PPE totaling ₱202,234.25; (c) various lapses found on the audit of financial records on (i) Advances to Contractors of ₱11,856,931.92; (ii) Guaranty Deposits of ₱93,150.00; and (iii) Accounts Payable - (₱46,404.85); (d) the

agency's non-compliance with Sections 7 and 22.6 of the Rules and Regulations on the Settlement of Accounts (RRSA) on the final and executory disallowances amounting to ₱370,988,675.58; and (e) unsubmitted and unvalidated transactions in CY 2018 amounting to ₱88,412,748.80.

For the above-noted observations, we recommended that the President agreed:

(a) For the accuracy of Cash account which remained doubtful, set up the internal controls necessary over cash and accountable forms.

(b) For the inaccurate PPE balance, (i) instruct the Accounting Office to (a) conduct a thorough review and initiate necessary correction/ adjustments regarding the foregoing accounts' classification, balance accuracy, and valuation on the recorded PPE accounts; (b) compute and recognize the depreciation on the affected PPE accounts (c) provide Allowance for Impairment on damaged property; and (d) reflect all the necessary disclosures pertaining to PPE accounts in the notes to financial statements; (ii) instruct the Property Office to complete the records maintained for PPEs; (iii) 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 (iv) require the Supply Office to work on the disposal of unserviceable items in accordance with the prescribed procedures.

(c) For the inaccurate various accounts, instruct the Finance Service Chief to (i) conduct a thorough review and initiate necessary corrections/ adjustments regarding the foregoing accounts' classification, balance accuracy and valuation; (ii) prudently prepare financial reports complying with all the above-mentioned requirements; (iii) submit the complete documentation on the housing project for review and clarification such as the afore-mentioned; and (iv) disclose all important details of the accounts in the notes to financial statements.

(d) For the agency's non-compliance with Sections 7 and 22.6 of the Rules and Regulations on the Settlement of Accounts (RRSA) on the final and executory disallowances, (i) instruct the Corporate Finance Services Chief (CFSC) to take up in the agency's books the journal entries to recognize the Receivables that arose from the disallowances which became final and executory; and (ii) enforce the implementation of the issued COEs in accordance with the RRSA in order to avoid the sanctions cited therein in case of failure to do so.

(e) For the unsubmitted and unvalidated transactions for CY 2018, (i) instruct the CFSC to (a) institute reforms in the Finance Department especially on the strict implementation of deadlines so that the Finance personnel would strictly comply with the rules, regulations, and deadlines on the submission of financial reports, its supporting schedules and disbursement vouchers; and (b) submit immediately the original copies of all the unsubmitted disbursement vouchers including its supporting documents; and (ii) cause the suspension of the payment of salaries of the officials and employees who are

responsible for the recurring unjustified delay in the submission of the monthly financial reports and transaction documents.

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 which were previously noted in the collection, remittance, disbursement, and recording processes in the Senior Cashier's Office (SCO) both in MOA Satellite Office and in Casiguran Corporate Campus were still prevalent, such as (a) inadequate physical controls for safeguarding cash assets; (b) lack of commitment and irregular monitoring of SC's outputs which resulted in delays in the rendition of reports and compromised the accuracy and correctness of the same; (c) issuance of official receipt, deposit of collections, and payment of payroll by unauthorized personnel, (d) doubtful reliability of the process and/or the authenticity of documents due to disparities of information which eventually disclosed the participation of a service contractor in the collection process in Casiguran office, (e) collections not based on order of payment from the Accounting Unit; (f) delayed remittances of collections to the Senior Cashier and delayed deposits to the bank; (g) an understatement of both cash and income account due to non-recording of ₱20,800.00 cash collections and ₱30,550.00 collections received through bank; and an overstatement of ₱1,000.00 in cash balance due to error in the recording of collections as of July 31, 2018; (h) dormant depository account under Development Bank of the Philippines with cash balance amounting to ₱466,551.48, (i) stale checks not yet cancelled and adjusted in the books, thus rendered ineffective the internal control system over cash and accountable forms. (***Observation No. 1***)

We recommended and the President agreed to comply with our previous year's recommendation on the internal controls necessary over cash and accountable forms. Likewise, Management is once again reminded that the required reports be submitted on time, otherwise, appropriate sanctions must be applied against the concerned officials and personnel.

2. Some lapses in property management were observed such as incomplete property records and reports. Meanwhile, there were some lapses in property management that prevented the effective establishment of accountability thereon which were not in conformity with Section 102(1) of PD No. 144. (***Observation No. 2***)

We recommended and the President agreed to (a) instruct the Accounting Office instruct the Accounting Office to maintain the required property records.

3. Due to inefficiency and lack of commitment, the monthly submission of financial reports and its supporting schedules, and disbursement vouchers, were not submitted within the prescribed period, thus precluding the Agency Head of being provided immediately with reliable information on the status and result of financial operations of

the agency, and the Auditor of the timely examination of the accounts and timely validation of the transactions, contrary to Section 60, Chapter 19, Volume I of the Government Accounting Manual and Section 122(1) of PD No. 1445. (*Observation No. 5*)

We recommended that the President (a) instruct the Corporate Finance Services Chief (CFSC) to (i) institute reforms in the Finance Department especially on the strict implementation of deadlines so that the Finance personnel would strictly comply with the rules, regulations, and deadlines on the submission of financial reports, its supporting schedules and disbursement vouchers; and (ii) submit immediately the original copies of all the unsubmitted disbursement vouchers including its supporting documents; and (b) cause the suspension of the payment of salaries of the officials and employees who are responsible for the recurring unjustified delay in the submission of the monthly financial reports and transaction documents.

4. Cash advances granted in previous years (2009 – to 2015) totaling ₱13,884,254.93 remained unliquidated as of December 31, 2018, contrary to Section 89 of PD No. 1445, COA Circular Nos. 97-002 and 2016-005 dated February 10, 1997 and December 19, 2016, respectively, which resulted in delayed recognition of expenses and possible exposure of unused cash advances to misappropriation and other irregularities. Moreover, liquidations were made through installments which contravenes COA Circular No. 2012-004 dated November 28, 2012. (*Observation No. 6*)

We recommended that the President instruct the CFSC to initiate the actions to comply with the requirements under COA Circular 2016-005 should the entity consider the option of requesting for the write-off of covered dormant receivables/unliquidated advances. Further, we recommended that the Legal Unit continue to pursue the filing of appropriate remedies against the officials and employees with unliquidated advances.

5. Splitting of requisitions and other deficiencies in the documentation and payments were observed in the procurement of various supplies and materials of APECO totaling ₱185,087.36 contrary to the provisions of Section 54.1 to 54.3 of the Revised Implementing Rules and Regulations (IRR) of Republic Act (R.A.) No. 9184, COA Circular No. 76-41 dated July 30, 1976, and Section 4(6) of Presidential Decree (P.D.) No. 1455, thereby rendering the transactions irregular. (*Observation No. 7*)

We recommended that the President instruct the (a) Corporate Finance Services Chief to see to it that all supporting documents including the required data and information needed are attached to the transactions and are completely presented in properly filled out prescribed forms; and (b) concerned units (Requisitioner and BAC) to explain why the requisitions for the afore cited transactions were not consolidated.

6. Of the total carrying amount of ₱613,658,433.09 of the Property, Plant and Equipment account, only ₱141,269,405.72 were insured with the General Insurance Fund (GIF) of the Government Service Insurance System (GSIS), exposing the remaining insurable properties to the risk of not being compensated in the event of damage or loss thru fire, theft and other unforeseen events, contrary to RA No. 656 as amended by PD No.

245 dated July 13, 1973. Furthermore, the Management was not able to submit the required property inventory report to the GSIS, contrary to COA Circular No. 92-390 dated November 17, 1992. (*Observation No. 8*)

We recommended that the President (a) immediately secure property insurance for all its insurable assets, in compliance with the rules and regulations of RA No. 656; (b) submit Property Insurance Form (PIF) to the Supervising Auditor/ Audit Team Leader, GIF, GSIS within the prescribed timeline in order to ensure indemnification of insurable assets' equivalent value in case of loss; and (c) allocate a yearly budget for the insurance premiums of not only its motor vehicles and administrative building but also of its other insurable assets.

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

There were no outstanding Suspensions and Charges as of December 31, 2018 while total audit disallowances amounting to ₱417,035,012.90 remained unsettled as of year-end.

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

Of the 46 audit recommendations we have cited in the prior years' Annual Audit Report six were fully implemented, 20 were partially implemented and 20 were unimplemented.



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

Qualified Opinion

We have audited the financial statements of Aurora Pacific Economic Zone and Freeport Authority (APECO), which comprise the Statement of Financial Position as at December 31, 2018, and the Statement of Financial Performance, Statement of Changes in Net Assets/Equity, Statement of Cash Flows and Statement of 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 of the matter described in the *Bases for Qualified Opinion* section of our report, the accompanying financial statements present fairly in all material respects, the financial position of the Aurora Pacific Economic Zone and Freeport Authority (APECO) as of December 31, 2018, and its financial performance, its cash flows, and its statement of comparison of budget and actual amounts for the year then ended in accordance with Philippine Public Sector Accounting Standards (PPSAS).

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 ₱13,735,396.17; (b) inaccurate PPE balance due to (i) long outstanding Construction in Progress (CIP) account amounting to ₱370,836,756.61; (ii) unrecorded depreciation of the Infrastructure Asset and Buildings and Other Structures with carrying cost of ₱137,207,067.21 and ₱70,375,387.00, respectively; (iii) unrecorded impairment of damaged and unserviceable property totaling to ₱26,097,611.12; (iv) doubtful Other Infrastructure Asset balance of ₱7,400,000.00 (v) inaccurate recording of donation expense in Other Structures of ₱1,500,000.00; (vi) inaccurate valuation of donated property of ₱567,898.49; and (vii) failure to meet the capitalization threshold on various PPE totaling ₱202,234.25; (c) various lapses found on the audit of financial records on (i) Advances to Contractors of ₱11,856,931.92; (ii) Guaranty Deposits of ₱93,150.00; and (iii) Accounts Payable of (₱46,404.85); (d) the agency's non-compliance with Sections 7 and 22.6 of the Rules and Regulations on the Settlement of Accounts (RRSA), final and executory disallowances amounting to ₱370,988,675.58; and (e) unsubmitted and unvalidated transactions in CY 2018 amounting to ₱88,412,748.80 present reservations on the accuracy

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

We conducted our audit in accordance with 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.

Key Audit Matters

Except for the matter described in the Bases for Qualified Opinion section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of Management and Those Charged with Governance 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 material misstatements, whether due to fraud or error.

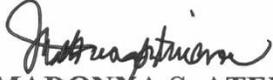
Those charged with governance are responsible for overseeing the Agency's financial reporting process.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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.

COMMISSION ON AUDIT

By:



MADONNA S. ATENCION
Supervising Auditor

28 February 2019

Aurora Pacific Economic Zone and Freeport Authority
Condensed Statement of Financial Position
As at December 31, 2018
(With Comparative Figures for CY 2017)

	<i>Note</i>	2018	2017
ASSETS			
Current Assets			
Cash and Cash Equivalents	5	₱ 66,920,578.67	₱ 82,774,247.46
Receivables, Net	6	14,220,543.75	14,509,740.98
Inventories	7	111,676.50	92,676.50
Other Current Assets	8	49,699,835.90	55,455,739.94
Total Current Assets		130,952,634.82	152,832,404.88
Non-Current Assets			
Property, Plant and Equipment-Net	9	917,835,514.83	875,421,338.31
Total Non-Current Assets		917,835,514.83	875,421,338.31
Total Assets		1,048,788,149.65	1,028,253,743.19
LIABILITIES			
Current Liabilities			
Financial Liabilities	10	6,328,988.69	6894260.63
Inter-Agency Payables	11	2,515,531.27	1240122.06
Trust Liabilities	12	15,982,764.45	12035588.64
Other Payables	13	70,065.34	0.00
Total Current Liabilities		24,897,349.75	20,169,971.33
Total Liabilities		24,897,349.75	20,169,971.33
Net Assets (Total Assets Less Total Liabilities)		₱ 1,023,890,799.90	₱ 1,008,083,771.86
NET ASSETS/EQUITY			
Government Equity		1,023,890,799.90	1,008,083,771.86
Total Net Assets/Equity		₱ 1,023,890,799.90	₱ 1,008,083,771.86

This statement should be read in conjunction with the accompanying notes.

Aurora Pacific Economic Zone and Freeport Authority
Condensed Statement of Financial Performance
For the Year Ended December 31, 2018
(With Comparative Figures for CY 2017)

	<i>Note</i>	2018	2017
Revenue			
Service and Business Income	<i>14</i>	₱ 20,574,962.64	₱ 11,388,942.87
Total Revenue		20,574,962.64	11,388,942.87
Current Operating Expenses			
Personnel Services	<i>15</i>	22,775,617.97	20,294,869.55
Maintenance and Other Operating Expenses	<i>16</i>	30,662,097.24	26,403,347.13
Non-Cash Expenses	<i>17</i>	4,878,722.57	4,307,049.26
Total Current Operating Expenses		58,316,437.78	51,005,265.94
Add(Deduct): Surplus/(Deficit) from Current Operat		(37,741,475.14)	(39,616,323.07)
Net Assistance/Subsidy	<i>18</i>	59,513,000.00	40,000,000.00
Surplus/(Deficit) for the Period		₱ 21,771,524.86	₱ 383,676.93

This statement should be read in conjunction with the accompanying notes.

Aurora Pacific Economic Zone and Freeport Authority
Statement of Changes in Net Assets/Equity
For the Year Ended December 31, 2018

	<i>Notes</i>	Accumulated Surplus/(Deficit)	Government Equity	Total
BALANCE AT JANUARY 1, 2017		₱ 9,312,933.35	₱ 933,164,105.42	₱ 942,477,038.77
Adjustments:				
Add/(Deduct):				
Prior Period Errors		(588,429.84)	0.00	(588,429.84)
RESTATED BALANCE AT JANUARY 1, 2017		8,724,503.51	933,164,105.42	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		-	65,811,486.00	65,811,486.00
BALANCE AT DECEMBER 31, 2017		9,108,180.44	998,975,591.42	1,008,083,771.86
Adjustments:				
Add/(Deduct):				
Prior Period Errors	4	(5,964,496.82)	0.00	(5,964,496.82)
RESTATED BALANCE AT JANUARY 1, 2018		3,143,683.62	998,975,591.42	1,002,119,275.04
Changes in Net Assets/Equity for the CY 2018				
Add/(Deduct):				
Surplus/(Deficit for the period)		21,771,524.86	0.00	21,771,524.86
BALANCE AT DECEMBER 31, 2018		₱ 24,915,208.48	₱ 998,975,591.42	₱ 1,023,890,799.90

This statement should be read in conjunction with the accompanying notes.

Aurora Pacific Economic Zone and Freeport Authority
Condensed Statement of Cash Flows
For the Year Ended December 31, 2018
(With Comparative Figures for CY 2017)

	<i>Note</i>	2018	2017
Cash flows from Operating Activities			
Cash Inflows:			
Collection of Revenue		₱ 20,631,030.66	₱ 11,391,443.17
Receipt of Assistance/Subsidy		59,513,000.00	105,811,486.00
Other Receipts		1,799,078.22	196,458.54
Total Cash Inflows		81,943,108.88	117,399,387.71
Adjustments		252,498.04	241,147.49
Adjusted Cash Inflows		82,195,606.92	117,640,535.20
Cash Outflows:			
Payment of Expenses		47,424,596.59	63,969,230.10
Grant of Cash Advances		80,210.41	57,987.08
Remittance of Personnel Benefit Contributions and Mandatory Deductions		9,575,551.16	15,102,957.38
Other Disbursements		235,419.50	0.00
Total Cash Outflows		57,315,777.66	79,130,174.56
Adjustments		863,964.27	30,000.00
Adjusted Cash Outflows		58,179,741.93	79,160,174.56
Net Cash Provided by Operating Activities		24,015,864.99	38,480,360.64
Cash flows from Investing Activities			
Cash Outflows:			
Purchase/Construction of Property, Plant and Equipment		39,869,533.78	61,058,763.72
Total Cash Outflows		39,869,533.78	61,058,763.72
Net Cash Used in Investing Activities		(39,869,533.78)	(61,058,763.72)
Net Increase/ Decrease in Cash and Cash Equivalents		(15,853,668.79)	(22,578,403.08)
Cash and Cash Equivalents, January 1		82,774,247.46	105,352,650.54
Cash and Cash Equivalents, December 31	5	₱ 66,920,578.67	₱ 82,774,247.46

This statement should be read in conjunction with the accompanying notes.