



Republic of the Philippines
COMMISSION ON AUDIT
Quezon City

ANNUAL AUDIT REPORT
ON THE

CAGAYAN ECONOMIC ZONE AUTHORITY

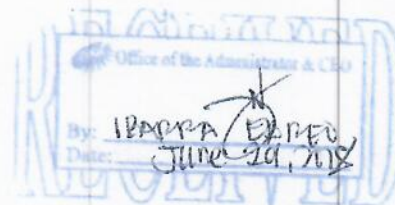
For the Year Ended December 31, 2017



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City
CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

June 28, 2018

Mr. RAUL L. LAMBINO
Administrator and Chief Executive Officer
Cagayan Economic Zone Authority
7/F Westar Building, 611 Shaw Blvd., Pasig City



Sir:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Cagayan Economic Zone Authority (CEZA) for the year ended December 31, 2017.

We expressed an unmodified opinion on the fairness of the presentation of the financial statements of the Authority.

The significant observations and recommendations that need immediate action are as follows:

1. CEZA reduced their 2017 targets in anticipation of the effects of the issuance of Executive Order No. 13 which granted PAGCOR the privilege and right to operate and license gambling casinos, gaming clubs and other similar recreation or amusement places and gaming pools within the territorial jurisdiction of the Philippines. Consequently, CEZA accomplished more than their targets but its income significantly decreased by 112.52 per cent or incurring a loss of P64.925 million.

We recommended that Management:

- Realistically set their targets in consideration of all the factors to attain them; and
 - Continue encouraging more Locators/Investors to put other types of business with CEZA and identify areas in the zone which have great potentials for growth C and development.
2. Unserviceable Property and Equipment with a total book value of P10.752 million remained undisposed despite previous audit recommendation on the disposal of property deemed beyond economic repair.

We recommended that Management:

- Require the Property Officer to submit to the CEZA Disposal Committee the accomplished Inventory and Inspection Report of Unserviceable Property for its further appropriate action; and
- Cause the immediate disposal of the unserviceable properties and equipment.

3. Titles to 13 parcels of land with total area of 619,435 square meters worth P8.593 million acquired from CYs 1998 to 2000 are still not transferred/registered in the name of the CEZA.

We reiterated our recommendations that the:

- Management expedite the transfer of titles in the name of CEZA by securing all the needed documentary requirements and accomplishing/providing all other necessary legal requirements;
- Legal Department evaluate the problems encountered and instigate legal remedies to facilitate the immediate transfer of land titles to CEZA; and
- Management ensure that the said properties are safeguarded against loss or misuse.

The other audit observations together with the recommended courses of action, which we discussed with Management officials and staff concerned during the exit conference conducted on April 27, 2018, are discussed in detail in Part II of the report.


We request that appropriate actions be taken on the observations and recommendations and that we be informed on the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


ELSIELIN C. MASANGCAY
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Senate Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library

EXECUTIVE SUMMARY

Introduction

The Cagayan Economic Zone Authority (CEZA) was created by virtue of Republic Act No. 7922, otherwise known as the "Cagayan Special Economic Zone Act of 1995". It is a government corporate body mandated to develop, promote, manage and operate the Cagayan Special Economic Zone and Freeport (CSEZFP) as a viable investment and transshipment hub, agro-industrial business, and an attractive tourist destination in order to boost employment and economic opportunities in Northern Philippines.

Spatially, the CSEZFP covers the entire Municipality of Sta. Ana and the Islands of Fuga, Barit, Mabbag in the Municipality of Aparri, Cagayan. Approximately 54,199 hectares of land for prime development falls within the jurisdiction of CEZA broken down as follows:

For 2017, despite the issuance and implementation of Executive Order No. 13, which restricted the gambling activities, and activities and services directly or indirectly related to or in support to such gambling activities of CEZA within its territorial jurisdiction, CEZA still managed to have a total of 92 locators with a total capital investment of P8.753 billion and generated a total of 4,702 direct employment in the ecozone. The 92 locators of CEZA are categorized as follows:

Scope and Objectives of Audit

The audit covered the accounts, transactions and operations of CEZA for CY 2017 and 2016. It was aimed at expressing an opinion on the fairness of presentation of the Authority's financial position, results of operations and cash flows, and at determining the Authority's compliance with pertinent laws, rules and regulations.

Financial Highlights

Comparative Financial Position

	2017	2016	Increase (Decrease)
Assets	6,604,524,067	7,089,554,874	(485,030,807)
Liabilities	15,537,049	365,369,665	(349,832,616)
Equity	6,588,987,018	6,724,185,209	(135,198,191)

Comparative Results of Operations

	2017	2016	Increase (Decrease)
Revenue	234,218,623	1,009,450,603	(775,231,980)
Expenses	(299,143,984)	(284,868,255)	14,275,729
Profit/Loss Before Income Tax	(64,925,361)	724,582,348	(789,507,709)
Income Tax Expense	0	206,221,816	(206,221,816)
Net Profit/Loss	(64,925,361)	518,360,532	(583,285,893)

Independent Auditor's Report on the Financial Statements

We rendered an unmodified opinion on the fairness of presentation of the financial statements of the Authority for the years 2017 and 2016.

Significant Audit Observations and Recommendations

1. CEZA reduced their 2017 targets in anticipation of the effects of the issuance of Executive Order No. 13 which granted PAGCOR the privilege and right to operate and license gambling casinos, gaming clubs and other similar recreation or amusement places and gaming pools within the territorial jurisdiction of the Philippines. Consequently, CEZA accomplished more than their targets but its income significantly decreased by 112.52 per cent or incurring a loss of P64.925 million.

We recommended that Management:

- Realistically set their targets in consideration of all the factors to attain them; and
 - Continue encouraging more Locators/Investors to put other types of business with CEZA and identify areas in the zone which have great potentials for growth and development.
2. Unserviceable Property and Equipment with a total book value of P10.752 million remained undisposed despite previous audit recommendation on the disposal of property deemed beyond economic repair.

We recommended that Management:

- Require the Property Officer to submit to the CEZA Disposal Committee the accomplished Inventory and Inspection Report of Unserviceable Property for its further appropriate action; and

- Cause the immediate disposal of the unserviceable properties and equipment.
3. Titles to 13 parcels of land with total area of 619,435 square meters worth P8.593 million acquired from CYs 1998 to 2000 are still not transferred/registered in the name of CEZA.

We reiterated our recommendations that the:

- Management expedite the transfer of titles in the name of CEZA by securing all the needed documentary requirements and accomplishing/providing all other necessary legal requirements;
- Legal Department evaluate the problems encountered and instigate legal remedies to facilitate the immediate transfer of land titles to CEZA; and
- Management ensure that the said properties are safeguarded against loss or misuse.

Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2017, disallowances of P3.230 million which were all issued prior to the effectivity of the 2009 COA Rules and Regulations on Settlement of Accounts remain unsettled.

Status of Implementation of Prior Year's Audit Recommendations

Of the nine audit recommendations embodied in the CY 2016 Annual Audit Report, five were implemented, two were partially implemented and two were not implemented.



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Cagayan Economic Zone Authority
7/F Westar Building, 611 Shaw Blvd.
Pasig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cagayan Economic Zone Authority (CEZA), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of profit or loss, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits 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 Authority in accordance with the Code of Ethics for Government Auditors (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related

to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 22 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRSs. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


PRISCILLA DG CRUZ
State Auditor V
Supervising Auditor

April 30, 2018

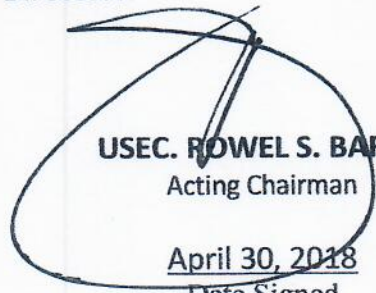


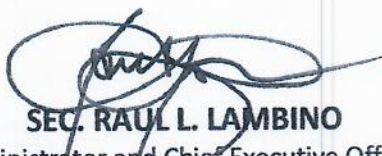
**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR
FINANCIAL STATEMENTS**

The Management of Cagayan Economic Zone Authority (CEZA) is responsible for the preparation of the financial statements as at December 31, 2017 and 2016, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of the CEZA in accordance with the International Standards of Supreme Audit Institutions and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.


USEC. ROWEL S. BARBA
Acting Chairman
April 30, 2018
Date Signed


SEC. RAUL L. LAMBINO
Administrator and Chief Executive Officer

April 30, 2018
Date Signed

CAGAYAN ECONOMIC ZONE AUTHORITY
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016	January 01, 2016
ASSETS				
Current Assets				
Cash and Cash Equivalents	3	1,676,346,629	1,887,115,595	878,456,170
Receivables	4	13,778,292	44,634,585	590,084,900
Prepayments		267,962	404,601	375,146
Total Current Assets		1,690,392,883	1,932,154,781	1,468,916,216
Non-Current Assets				
Investment in Joint Venture	5	691,000,000	691,000,000	691,000,000
Other Investments	6	10,000,000	10,000,000	10,000,000
Investment Property	7	83,982,780	80,223,208	84,286,891
Property and Equipment, net	8	4,116,322,420	4,370,413,822	4,508,032,546
Deferred Tax Assets	9	5,993,343	0	0
Other Non-Current Assets	10	6,832,641	5,763,063	5,763,063
Total Non-Current Assets		4,914,131,184	5,157,400,093	5,299,082,500
TOTAL ASSETS		6,604,524,067	7,089,554,874	6,767,998,716
LIABILITIES				
Current Liabilities				
Financial Liabilities	11	8,060,050	5,185,082	4,624,121
Inter-Agency Payables	12	1,126,136	353,632,808	258,735,150
Other Payables	13	1,500,680	1,458,973	5,094,851
Total Current Liabilities		10,686,866	360,276,863	268,454,122
Non-Current Liabilities				
Trust Liabilities	14	4,058,673	4,058,673	0
Deferred Credits	15	791,510	1,034,129	1,365,245
Total Non-Current Liabilities		4,850,183	5,092,802	1,365,245
Government Equity		6,588,987,018	6,724,185,209	6,498,179,349
TOTAL LIABILITIES AND EQUITY		6,604,524,067	7,089,554,874	6,767,998,716

See accompanying Notes to Financial Statements.

CAGAYAN ECONOMIC ZONE AUTHORITY
STATEMENTS OF PROFIT OR LOSS
For the years ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
REVENUE	17		
Licensing Fees		207,364,194	861,640,677
Lease Income		9,282,427	8,554,283
Passport, Visa and Application Fees		5,338,115	36,155,420
Processing Fees		1,161,499	3,608,264
Seaport System Fees		1,068,117	2,215,876
Permit Fees		247,108	684,819
Sewerage/Garbage Fees		86,550	342,200
Share on the 5% Final Tax on Gross Income of CEZA Locators		0	12,003,000
		224,548,010	925,204,539
EXPENSES			
Personnel Services	18	47,803,220	36,267,271
Maintenance and Other Operating Expenses	19	82,704,935	88,651,826
Non-Cash Expenses	20	168,635,829	158,818,508
		299,143,984	283,737,605
PROFIT/LOSS FROM OPERATIONS		(74,595,974)	641,466,934
OTHER INCOME (EXPENSES)			
Interest Income		5,166,897	4,123,034
Other Fines and Penalties		3,348,546	57,942,350
Gain on Foreign Currency Exchange		868,775	22,180,680
Gain/Loss on Sale of Property and Equipment, net		280,895	(1,130,650)
Miscellaneous Income		5,500	0
		9,670,613	83,115,414
PROFIT/LOSS BEFORE INCOME TAX		(64,925,361)	724,582,348
INCOME TAX EXPENSE		0	206,221,816
NET PROFIT/LOSS		(64,925,361)	518,360,532

See accompanying Notes to Financial Statements.

CAGAYAN ECONOMIC ZONE AUTHORITY
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	Share Capital	Retained Earnings	Total Equity
Balances, December 31, 2015		5,755,141,585	743,037,764	6,498,179,349
Changes in Equity for 2016				
Net Profit for the year			518,360,532	518,360,532
Dividends			(292,354,672)	(292,354,672)
Balances, December 31, 2016		5,755,141,585	969,043,624	6,724,185,209
Changes in Equity for 2017				
Net loss for the year			(64,925,361)	(64,925,361)
Prior Year Adjustments	21		(70,272,830)	(70,272,830)
Balances, December 31, 2017		5,755,141,585	833,845,433	6,588,987,018

See accompanying Notes to Financial Statements.

CAGAYAN ECONOMIC ZONE AUTHORITY
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of income from operations		214,582,438	926,723,128
Collection of receivables		44,104,813	541,934,146
Receipt of interests from deposits		5,166,897	4,123,034
Refund of cash advances		717,488	432,513
Amounts received in trust - sale of bid documents, VAT and donations		306,505	247,684
Refund of disallowances/cancelled checks		131,806	772,555
Receipt of share on the 5% final tax on gross income of locators		0	12,003,000
Receipt of guaranty deposit		0	600,000
Payment of maintenance and other operating expenses		(81,241,542)	(87,062,823)
Payment of personnel services		(43,763,296)	(35,562,978)
Cash advances to officers and employees		(3,832,571)	(2,810,499)
Payment of guaranty deposit and prepayment		(1,131,077)	0
Payment of other payables		(40,575)	(5,317)
Payment of trust receipts - honorarium of BAC members, etc.		0	(327,505)
Remittance of trust liabilities		0	(170,061)
Net cash generated from operations		135,000,886	1,360,896,877
Income taxes paid		(105,285,997)	(169,432,883)
Net cash provided by operating activities		29,714,889	1,191,463,994
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		(1,293,780)	(18,261,357)
Proceeds from sale of disposed asset		533,268	64,865
Net cash used in investing activities		(760,512)	(18,196,492)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends		(240,592,118)	(187,180,928)
Net cash used in financing activities		(240,592,118)	(187,180,928)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		868,775	22,572,851
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(210,768,966)	1,008,659,425
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,887,115,595	878,456,170
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	1,676,346,629	1,887,115,595

See accompanying Notes to Financial Statements.