

EXECUTIVE SUMMARY

Introduction

The Authority of the Freeport Area of Bataan (AFAB) was created by virtue of Republic Act No. 9728 otherwise known as the “Freeport Area of Bataan Act of 2009” on October 23, 2009. With the enactment of RA 9728, the former Bataan Economic Zone (BEZ) in Mariveles, Bataan under the Philippine Economic Zone Authority (PEZA) was transformed into the Freeport Area of Bataan (FAB). On June 28, 2010, the AFAB officially took over the administration of FAB. The AFAB is mandated to handle the administration, promotion and development of the FAB.

The AFAB vision is to be the Freeport of choice in the country by 2020, becoming a center of trade, innovation and sustainable development in Asia promoting work-life balance, global competitiveness, innovation and partnership.

Its mission is to: (1) provide a superior Freeport community with highly productive talent base and leading edge equipment and facilities;(2) ensure of existing clients and attract new ones via cost-efficient value added services; (3) provide a support infrastructure which is well maintained and available 24 by 7 to meet locators demand; (4) be continuously financially viable for the benefit of all stakeholders; and (5) adapt proactively to continuous changes in technology and manpower requirements.

Scope of Audit

The audit covered the examination of accounts and financial transactions of the Authority for the year ending December 31, 2017. 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 years’ audit recommendations.

Financial Highlights

The following comparative data shows the financial condition and results of operation of the Authority of the Freeport Area of Bataan for the CYs 2017 and 2016.

	CY 2017	CY 2016 (As Restated)	Increase (Decrease)
Financial Condition			
Assets	₱2,382,356,107.57	₱2,186,794,183.46	₱195,561,924.11
Liabilities	755,647,994.55	779,344,080.40	23,696,085.85
Government Equity	₱1,626,708,113.02	₱1,407,450,103.06	₱219,258,009.96

	CY 2017	CY 2016 (As Restated)	Increase (Decrease)
Results of Operations			
Income	₱1,239,317,028.23	₱946,766,341.57	₱292,550,686.66
Expenses	1,025,776,166.14	862,783,444.38	162,992,721.76
Profit(Loss) Before Tax	213,540,862.09	83,982,897.19	129,557,964.90
Income Tax Expense/(Benefit)	62,076,260.26	23,844,827.20	38,231,433.06
Net Income/(Loss)	₱151,464,601.83	₱60,138,069.99	₱91,326,531.84

Independent Auditor's Report

The Auditor rendered an unqualified opinion on the fairness of the presentation of the financial statements for the year ended December 31, 2017 as a result of reasonable assurance that the financial statements are free of material misstatements and were prepared in accordance with applicable rules and regulations and in conformity with generally accepted accounting principles.

Summary of Significant Audit Observations and Recommendations

1. The planning of various infrastructure programs, projects and activities which were funded by the Department of Budget and Management (DBM) and Internally-Generated Funds (IGF), in the total amount of ₱228,582,833.97 may be considered inefficient as manifested by variations and extensions for almost 70% of the projects implemented in CY 2017, contrary to pertinent provisions of Annex A of Implementing Rules and Regulations of Republic Act No. 9184 thus resulting in additional cost of ₱15,508,127.34 on the part of AFAB and precluded the intended users from the timely utilization of government facilities. (*Observation No. 1*)

We recommended that the Infrastructure and Maintenance Division (a) enhance the planning process and require the preparation of the required feasibility studies to allow reasonable approximation of events or conditions that may hamper or affect the project implementation, with the end in view of timely utilization of the completed projects; (b) establish a realistic timeline in the implementation of projects in accordance with the agency's financial and logistics capability; and (c) request for additional staff to fill the vacancies in the department that will assist in the preparation of feasibility studies and other necessary planning documents.

2. The Authority achieved outstanding financial performance for CY 2017 in generating revenues from service and business income totalling ₱1.2 Billion or an increase of 31% from prior year's operation. However, the existing policies and procedures in the collection of receivables from revenues were not adequate contrary to Section 6.1 of COA Circular No. 2016-005 dated December 19, 2016 and to existing internal control principles and standards thereby exposing the agency to possible loss and preventing the intended users from the timely utilization of government funds. (*Observation No. 5*)

We recommended that the Chairman and Administrator instruct the: (a) Finance Department to (i) employ a more effective collection mechanism to regularly monitor both current and overdue accounts and to ensure that these are collected when due and demandable, (ii) issue demand letters or disconnection notice through the Legal Department to the enterprises or residents with unpaid balances upon lapse of a specified period, (iii) ensure that all claims of the Authority for both operating and Transmission Corporation accounts are supported with Statement of Accounts, (iv) evaluate the specific accounts, especially those categorized as hopeless of collection, and request for write-off upon submission to the Commission of proof that these accounts are indeed uncollectible and needed to be written off; (b) Community Services Department to consider following up the verification of the existence of residents with unpaid balances and immediately endorse to legal department thereafter; and (c) Legal Department to facilitate the negotiation process of the accounts with material receivable balances.

3. Total budget for GAD during the year in the amount of ₱1,425,000.00 was 99.89% below the required threshold as set forth under the Philippine Council on Women/National Economic and Development Authority/Department of Budget and Management (PCW/NEDA/DBM) Joint Circular No. 2012-01 thereby failing to fully institutionalize gender mainstreaming within the entity. (*Observation No. 6*)

We recommended that the Chairman and Administrator direct the members of the GPFS to: (a) comply with the existing guidelines in the preparation of the GAD Plan and Budget, specifically in attaining the minimum budget requirement, and (b) ensure that all GAD activities during the year are implemented to fully address the gender issues identified in GPB.

Status of Suspensions, Disallowances and Charges.

AFAB has no Notice of suspensions, disallowances and charges as of December 31, 2017.

Status of Implementation of Prior Years' Unimplemented Audit Recommendations

Out of the 17 prior years' audit recommendations, 14 were fully implemented, while three were partially implemented and reiterated in this year's report.