

EXECUTIVE SUMMARY

Introduction

The Authority of the Freeport of Bataan (AFAB) was created by virtue of Republic Act No. 9728 otherwise known as the “Freeport Area of Bataan Act of 2009” which lapsed into law on October 23, 2009. The Act converted the Bataan Economic Zone in Mariveles, Bataan into a special economic zone and freeport. The AFAB was created to operate and manage the Freeport Area of Bataan (FAB) in accordance with the provisions of the Act.

Pursuant to Section 4 of RA No. 9728, the FAB shall be managed and operated under some of the following principles:

1. The FAB 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;
2. The FAB shall continue to be provided with transportation, telecommunications and other facilities needed to attract legitimate and productive investments, generate linkage industries and employment opportunities for the people of the Province of Bataan and its neighbouring towns and cities;
3. The FAB may establish mutually beneficial economic relations with other entities or enterprises within the country or with foreign entities or enterprises; and
4. Foreign citizens and companies owned by non-Filipinos in whatever proportion may set up enterprises in the FAB either by themselves or in joint venture with Filipinos in any sector of industry, international trade and commerce within the FAB.

Financial Highlights

The following comparative data shows the financial condition, results of operation and sources and application of funds of the Authority of the Freeport Area of Bataan for the years 2012 and 2011.

	<u>2012</u>	<u>2011</u>	<u>Inc/(Dec)</u>
<i>Financial Statements</i>			
Assets	1,406,142,796.83	1,307,653,732.46	98,489,064.37
Liabilities	520,645,563.94	524,201,934.61	3,556,370.67
Equity	885,497,232.89	783,451,797.85	102,045,435.04
<i>Results of Operations</i>			
Income	838,012,364.46	775,577,540.60	62,434,823.86
Expenses	745,022,641.73	698,120,834.95	46,901,806.78
Excess of Expenses over Income	92,989,722.73	77,456,705.65	15,533,017.08
<i>Sources & Application of Funds</i>			
Net Cash Used in Operating Activities	70,762,107.63	151,552,198.51	(80,790,090.88)
Net Cash Used in Investing Activities	(86,129,709.99)	(113,051,065.65)	26,921,355.66
Net Cash Provided by Financing Activities	50,247,652.00	98,369,380.23	(48,121,728.23)
Net Increase in Cash	34,880,049.64	136,870,513.09	(101,990,463.45)

Scope of Audit

The audit covered the examination of the accounts and financial transactions of the Authority for the year ending December 31, 2012. The objectives of the audit were to (a) to ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) to determine the extent of implementation of prior year's audit recommendations.

Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements for the year ended December 31, 2012 owing to the misstatement of the Trade Accounts Receivable account arising from the inadequate provision for doubtful accounts by P28.4 million, as discussed in Part II of this report.

Relative to these trade receivables, we reiterate that management failed to undertake appropriate actions towards the write-off of P43.6 million inactive accounts booked under Accounts Receivable which have remained dormant for several years, contrary to COA Circular No. 97-001.

For the above error and deficiency, we recommended that management:

- a) increase the provision for doubtful accounts to present the trade receivables at their net realizable value;
- b) evaluate each dormant account for possible write-off; and
- c) exert efforts to comply with the documentary requirements under COA Circular 97-001.

Other Significant Audit Observations and Recommendations

1. Regular disbursements were paid out of the petty cash fund in violation of COA Circular No. 97-002. (*Observation No. 2*)

We recommended that management comply with the requirements of the COA Circular No. 97-002 on the granting and utilization of petty cash fund.

2. The regularity, transparency and economy in the utilization of fuel amounting to P1,434,335.93 for CY 2011 cannot be ascertained due to the failure of management to prepare Monthly Report of Fuel Consumption of government motor transportation as mandated under COA Circular No. 77-61. (*Observation No.4*)

We recommended that management submit a monthly fuel consumption report with Requisition and Issue Voucher or a Withdrawal Slip duly approved by the Administrator or his authorized representative to support every withdrawal, as mandated under COA Circular No. 77-61.

3. The COA Auditor was not furnished advance copies of the Purchase Orders contrary to the provision of COA Circular No. 2009-001 dated February 12, 2009. Likewise, notifications of deliveries of procured items were not made within twenty four (24) hours from acceptance. (*Observation No. 6*)

We recommended that management strictly adhere to the provision of COA Circular No. 2009-001 dated February 12, 2009, where Purchase Orders must be submitted within five (5) days from issuance thereof and the Auditor be duly notified of the deliveries of procured items within twenty four (24) hours from acceptance.

4. The reliability and accuracy of the year-end balance of the Land account amounting to P205,857,605.97 cannot be established because some parcels of land occupied by

the Agency were not yet transferred in its name and not booked up contrary to Section 54 of Government Accounting and Auditing Manual. (*Observation No. 7*)

We recommended that management: (a) undertake an inventory of all certificates of title/tax declarations for all parcels of land occupied by the agency; (b) register the land in the name of the Authority; and (c) record the historical cost/appraised value in the books of accounts.

5. The objective of the Memorandum of Agreement by and between Magic Leaf and Sun Cruises and the Authority of the Freeport Area of Bataan which aims to establish measures that will attract legitimate and productive investments by providing easier access to FAB as well as providing alternative roads of transportation to existing and potential investors have not been met. (*Observation No. 8*)

We recommended that management should assess the possibilities of expanding the campaign and understand how effectively and fully the advertisement is used. Management should justify the cost of spending P809,000.00 for advertisement and promotional campaign so that provisions on COA Circular No. 85-55A on excessive and unnecessary expenses will not be violated.

6. Several consultants were contracted by the Authority of the Freeport Area of Bataan whose works were determined to be within the capability of some agency personnel for lack of policy contrary to Section 24.3, Rule VII of the Implementing Rules and Regulations (IRR) of R.A. No. 9184, thus resulted in the overlapping and/or duplication of works. (*Observation No. 9*)

We recommended that management evaluate all consultancy contracts and consider rescinding those contracts covering services which are determined to be within the capability of agency personnel. We also, recommend that payments to consultants be supported with accomplishment reports indicating the work performed by the consultants during the period.

7. Property and supply officers were not bonded contrary to Section 101 of P.D. 1445 and Section 4.0 of Treasury Circular No. 02-2009 dated August 6, 2009. And also Section 7 of COA Circular 97-002. (*Observation No. 10*)

We recommended that management comply by requiring all accountable officers to be bonded pursuant to Section 101 of PD 1445 and Treasury Circular No. 02-2009 dated August 6, 2009 and COA Circular 97-002.

Status of Implementation of Prior Year's Audit Recommendations

Out of the eight prior year's audit recommendations, four were fully implemented and four were partially implemented.