



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Quezon City

**ANNUAL AUDIT REPORT**  
ON THE

**CAGAYAN ECONOMIC ZONE AUTHORITY**

**For the Years Ended December 31, 2018 and 2017**

## 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:

• Forest Area	29,800
• Residential Area/Ecotourism/Rivers	21,252
• Industrial Area	1,900
• Agro Industrial Area	1,247

CSEZFP has been identified as a potential development impetus for the North Luzon Region. It is a major transshipment point for trade in the Asia-Pacific rim due to its strategic location between the Pacific Ocean and the South China Sea. The geography is suitable for the development of a seaport and an airport and there is ample suitable surrounding land for the establishment of industrial, commercial and tourism developments.

CEZA is headed by Secretary Raul L. Lambino, Administrator and Chief Executive Officer. The Chairman of the Board of Directors is the Secretary of the Department of Trade and Industry.

Personnel complement as of December 31, 2018 stood at fifty-seven (57) permanent/regular positions, 33 of which are assigned at the Main Office in Mandaluyong City while the remaining are at the Satellite Office in Tuguegarao and Annex Office in Sta Ana, Cagayan. Meanwhile, to ensure that services to clients and stakeholders will not be interrupted, a total of 178 outsourced personnel were deployed in the three offices under contract of service.

For CY 2018 CEZA has an approved Corporate Operating Budget of P1.968 billion.

### FINANCIAL HIGHLIGHTS

#### Comparative Financial Position

	2018	2017	Increase (Decrease)
Assets	6,927,553,836	6,604,524,067	323,029,769
Liabilities	188,072,619	15,537,049	172,535,570
Equity	6,739,481,218	6,588,987,018	150,494,200

## Results of Operations

	2018	2017	Increase (Decrease)
Income	740,551,957	234,218,623	506,333,334
Personnel Services	42,594,324	47,803,220	(5,208,896)
Maintenance and Other			
Operating Expense	123,147,034	82,704,935	40,442,099
Non-Cash Expenses	170,123,579	168,635,829	1,487,750
Financial Expenses	2,728	0	2,728
Income (Loss) Before Tax	404,684,292	(64,925,361)	469,609,653
Income Tax Expense	109,720,169	0	109,720,169
Net Profit/Loss	294,964,123	(64,925,361)	359,889,484

## SCOPE AND OBJECTIVES OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and transactions of CEZA for the period January 1 to December 31, 2018 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2018 and 2017. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations as well as adherence to prescribed policies and procedures.

## INDEPENDENT AUDITOR'S OPINION

We rendered an unmodified opinion on the fairness of presentation of the financial statements of CEZA for the years ended December 31, 2018 and 2017.

## SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The designation of personnel who are under Contract of Service (COS) to hold managerial positions was not in accordance with CSC, COA and DBM Joint Circular No. 1 s. 2017 dated June 15, 2017 on the Rules and Regulations Governing Contract of Service and Job Order Workers in the Government.

We recommended that Management:

- a. Adhere to Section 7.3 of CSC, COA, and DBM Joint Circular No. 1 s. 2017 dated June 15, 2017 when engaging the services of COS personnel; and
- b. Follow up with the DBM the status of the request for approval of CEZA's new organizational structure.

2. The principal purpose/objective for the construction of the Cagayan North International Airport (CNIA) which is to service the air transport and cargo needs of residents, visitors and businesses in CSEZFP and the rest of Region II was not achieved in spite of the lapse of more than nine years.

We recommended that Management expedite the completion of the CAAP requirements for the Aerodrome Certification License so that the airport can commence the operation for domestic and international commercial flights.

3. CEZA has not received its 20 per cent share in the issued I-Cards amounting to US\$430,150 which was agreed in the Memorandum of Understanding resulting in the understatement of income for the period 2014 to 2016.

We recommended that Management:

- a. Make a demand from Hybrid Info Corporation (HIC) to submit all the documents to support the total number of I-Cards that HIC manufactured and issued to CEZA from CY 2014 to 2016 and require the remittance to the Authority its 20 per cent share therefrom; and
- b. Conduct an in-depth investigation on CEZA officers and employees involved in the issuance of the assailed I-Cards and file the necessary charges, if warranted.

### **SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES**

As of December 31, 2018, the balance of audit disallowances amounted to P3.230 million as indicated in the Statement of Audit Suspensions, Disallowances and Charges (SASDC). The audit disallowances were issued prior to October 6, 2009, the effectivity of COA Rules and Regulations on Settlement of Accounts (RRSA), which remained unsettled. Of this amount, P2.753 million or 85.23 per cent were suspensions which matured into audit disallowance and the remaining P0.447 million or 14.77 per cent were outright disallowances.

### **STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

Of the twelve audit recommendations embodied in the CY 2017 Annual Audit Report, eight were implemented, three were partially implemented and one was not implemented. Details are presented in Part III of this Report.



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

## **INDEPENDENT AUDITOR'S REPORT**

### **THE BOARD OF DIRECTORS**

Cagayan Economic Zone Authority  
10/F Greenfield Tower  
Mandaluyong 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, 2018 and 2017, 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 CEZA as at December 31, 2018 and 2017, 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 CEZA 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 CEZA'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 CEZA or to cease operations, or has no realistic alternative but to do so.

Those charged with the governance are responsible for overseeing CEZA'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 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 CEZA'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 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 CEZA'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 CEZA 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

### **Report on Other Legal and Regulatory Requirements**

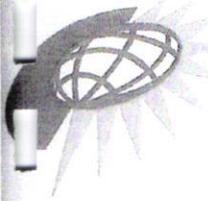
Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 23 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

### **COMMISSION ON AUDIT**



**VIRGINIA A. LERO**  
State Auditor IV  
OIC, Supervising Auditor

March 19, 2019

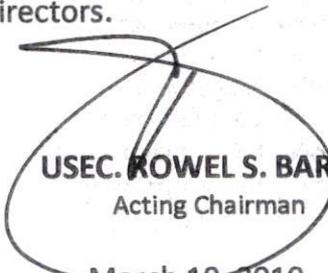


**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR  
FINANCIAL STATEMENTS**

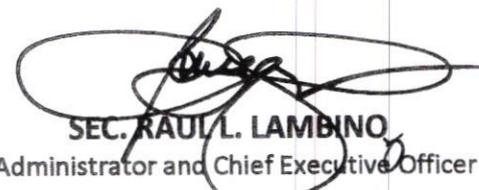
The Management of Cagayan Economic Zone Authority (CEZA) is responsible for the preparation of the financial statements as at December 31, 2018 and 2017, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements 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.

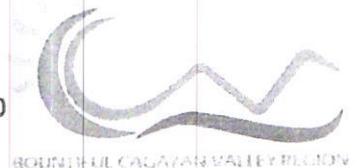
The Commission on Audit has audited the financial statements of the CEZA in accordance with the International Standards of Supreme Audit Institutions and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

  
**USEC. ROWEL S. BARBA**  
Acting Chairman  
March 19, 2019  
Date Signed

  
**PC Supt. AGRIMERO A. CRUZ, ret., CSEE**  
Deputy Administrator  
March 19, 2019  
Date Signed

  
**SEC. RAUL L. LAMBINO**  
Administrator and Chief Executive Officer  
March 19, 2019  
Date Signed

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Tuguegarao, Cagayan 3500 - Tel. (632) 533-3439



**CAGAYAN ECONOMIC ZONE AUTHORITY**  
**STATEMENTS OF FINANCIAL POSITION**

December 31, 2018 and 2017  
(In Philippine Peso)

	Note	2018	2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	3	1,835,542,865	1,676,346,629
Receivables	4	147,863,065	13,778,292
Inventories	5	613,683	267,962
<b>Total Current Assets</b>		<b>1,984,019,613</b>	<b>1,690,392,883</b>
<b>Non-Current Assets</b>			
Investment in Joint Venture	6	691,000,000	691,000,000
Other Investments	7	10,000,000	10,000,000
Investment Property	8	79,693,337	83,982,780
Property and Equipment, net	9	4,119,885,923	4,116,322,420
Deferred Tax Assets	10	4,558,040	5,993,343
Other Non-Current Assets	11	38,396,923	6,832,641
<b>Total Non-Current Assets</b>		<b>4,943,534,223</b>	<b>4,914,131,184</b>
<b>TOTAL ASSETS</b>		<b>6,927,553,836</b>	<b>6,604,524,067</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Financial Liabilities	12	4,477,138	8,060,050
Inter-Agency Payables	13	174,008,259	1,126,136
Other Payables	14	3,077,319	1,500,680
<b>Total Current Liabilities</b>		<b>181,562,716</b>	<b>10,686,866</b>
<b>Non-Current Liabilities</b>			
Trust Liabilities	15	5,967,402	4,058,673
Deferred Credits	16	542,500	791,510
<b>Total Non-Current Liabilities</b>		<b>6,509,902</b>	<b>4,850,183</b>
<b>Total Liabilities</b>		<b>188,072,618</b>	<b>15,537,049</b>
<b>EQUITY</b>			
Government Equity	17	6,739,481,218	6,588,987,018
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,927,553,836</b>	<b>6,604,524,067</b>

The notes on pages 9 to 39 form part of these statements.

**CAGAYAN ECONOMIC ZONE AUTHORITY**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
For the years ended December 31, 2018 and 2017  
(In Philippine Peso)

	Note	2018	2017
<b>REVENUE</b>	18		
Processing Fees		476,315,357	1,161,499
Licensing Fees		189,867,269	207,364,194
Lease Income		11,337,810	9,282,427
Passport, Visa and Application Fees		7,267,174	5,338,115
Seaport System Fees		7,483,967	1,068,117
Sewerage/Garbage Fees		384,000	86,550
Permit Fees		371,357	247,108
Other Business Income		159,000	0
		<b>693,185,934</b>	<b>224,548,010</b>
<b>EXPENSES</b>			
Personnel Services	19	42,594,324	47,803,220
Maintenance and Other Operating Expenses	20	123,147,034	82,704,935
Non-Cash Expenses	21	170,123,579	168,635,829
		<b>335,864,937</b>	<b>299,143,984</b>
<b>INCOME(LOSS) FROM OPERATIONS</b>		<b>357,320,997</b>	<b>(74,595,974)</b>
<b>OTHER INCOME (EXPENSES)</b>			
Gain on Foreign Currency Exchange		26,917,477	868,775
Other Fines and Penalties		8,373,627	3,348,546
Interest Income		5,229,284	5,166,897
Miscellaneous Income		1,159,195	5,500
Gain/Loss on Sale of Property and Equipment, net		0	280,895
Finance Expenses		(2,728)	0
		<b>41,676,855</b>	<b>9,670,613</b>
<b>INCOME(LOSS) BEFORE INCOME TAX</b>		<b>398,997,852</b>	<b>(64,925,361)</b>
<b>INCOME TAX EXPENSE</b>		<b>109,720,169</b>	<b>0</b>
<b>INCOME(LOSS) AFTER INCOME TAX</b>		<b>289,277,683</b>	<b>(64,925,361)</b>
Subsidy from the National Government	22	5,686,440	0
<b>NET INCOME(LOSS)/</b>			
<b>TOTAL COMPREHENSIVE INCOME(LOSS)</b>		<b>294,964,123</b>	<b>(64,925,361)</b>

The notes on pages 9 to 39 form part of these statements.

**CAGAYAN ECONOMIC ZONE AUTHORITY  
STATEMENTS OF CHANGES IN EQUITY**

For the years ended December 31, 2018 and 2017  
(In Philippine Peso)

	Note	Share Capital	Retained Earnings	Total Equity
<b>Balances, December 31, 2016</b>		5,755,141,585	969,043,624	6,724,185,209
<b>Changes in Equity for 2017</b>				
Net loss for the year			(64,925,361)	(64,925,361)
Prior year adjustments			(70,272,830)	(70,272,830)
<b>Balances, December 31, 2017</b>		5,755,141,585	833,845,433	6,588,987,018
<b>Changes in Equity for 2018</b>				
Net profit for the year			294,964,123	294,964,123
Dividends			(144,638,841)	(144,638,841)
Prior year adjustments, net			168,918	168,918
<b>Balances, December 31, 2018</b>		<b>5,755,141,585</b>	<b>984,339,633</b>	<b>6,739,481,218</b>

*The notes on pages 9 to 39 form part of these statements.*

**CAGAYAN ECONOMIC ZONE AUTHORITY**  
**STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2018 and 2017  
(In Philippine Peso)

	Note	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipt of income from operations		555,186,477	214,582,438
Receipt of customers' deposit		16,202,295	0
Collection of receivables		13,077,280	44,104,813
Receipt of subsidy from the National Government		5,686,440	0
Receipt of interests from deposits		5,229,284	5,166,897
Refund of cash advances		1,939,409	717,488
Refund of disallowances/cancelled checks		1,750,932	131,806
Receipt of miscellaneous income		1,159,195	0
Amounts received in trust - sale of bid documents, VAT and donations		1,039,932	306,505
Receipt of guaranty deposit		600,000	0
Payment of maintenance and other operating expenses		(119,987,074)	(81,241,542)
Payment of personnel services		(42,088,334)	(43,763,296)
Payment of customers' deposit		(13,538,157)	0
Cash advances to officers and employees		(9,827,521)	(3,832,571)
Payment of guaranty deposit and prepayment		(6,702,834)	(1,131,077)
Payment of other payables		(2,047,966)	(40,575)
Payment of trust receipts - honorarium of BAC members, etc.		(1,199,348)	0
Remittance of trust liabilities		(2,728)	0
Net cash generated from operations		406,477,282	135,000,886
Income taxes paid		(81,916,354)	(105,285,997)
Net cash provided by operating activities		324,560,928	29,714,889
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures		(192,282,169)	(1,293,780)
Proceeds from sale of disposed asset		0	533,268
Net cash used in investing activities		(192,282,169)	(760,512)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of dividends		0	(240,592,118)
Net cash used in financing activities		0	(240,592,118)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>		26,917,477	868,775
<b>NET INCREASE (DECREASE) IN CASH</b>		159,196,236	(210,768,966)
<b>CASH AT BEGINNING OF YEAR</b>		1,676,346,629	1,887,115,595
<b>CASH AT END OF YEAR</b>	3	1,835,542,865	1,676,346,629

The notes on pages 9 to 39 form part of these statements.