



Republic of the Philippines
COMMISSION ON AUDIT
Quezon City

ANNUAL AUDIT REPORT

on the

CAGAYAN ECONOMIC ZONE AUTHORITY

For the Years Ended December 31, 2020 and 2019



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, 2020 and 2019, and the statements of comprehensive income, 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, 2020 and 2019, 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.
- 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 in Note 29 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 V
Supervising Auditor

May 7, 2021

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 including the Islands of Fuga, Barit and Mabbag in the Municipality of Aparri in the Province of Cagayan. Approximately 54,119 hectares of land for prime development falls within the jurisdiction of CSEZFP. It is surrounded by the waters of Babuyan Channel and South China Sea on the North and the Pacific Ocean on the East.

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 Board of Directors is composed of 12 members and chaired by the Secretary of the Department of Trade and Industry.

Personnel complement as of December 31, 2020 stood at 55 permanent/regular and six casual positions, 35 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 222 outsourced personnel were deployed in the three offices.

For CY 2020, CEZA has an approved Corporate Operating Budget of P1.131 billion.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

	2020	2019 (As restated)	Increase (Decrease)
Assets	7,040,415,265	6,911,551,853	128,863,412
Liabilities	229,458,921	154,778,875	74,680,046
Equity	6,810,956,344	6,756,772,978	54,183,366

Comparative Results of Operations

	2020	2019 (As restated)	Increase (Decrease)
Operating Income	252,702,665	402,224,594	(149,521,929)
Operating Expenses	390,554,088	399,713,101	(9,159,013)
Income (Loss) from Operations	(137,851,423)	2,511,493	(140,362,916)
Other Income (Expenses)	(1,794,993)	(4,544,194)	(2,749,201)
Income Tax Benefit	42,010,512	0	42,010,512
Subsidy from the National Government	31,471,778	19,454,707	12,017,071
Net Income	(66,164,126)	17,422,006	(83,586,132)

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, 2020 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, 2020 and 2019. Also, we conducted our audits to assess compliance with pertinent laws, rules and regulations as well as adherence to prescribed policies and procedures.

INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

We rendered an unmodified opinion on the fairness of presentation of the financial statements of CEZA for the years 2020 and 2019.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. Past due Accounts Receivable totaling P148.101 million, aged 31 days to more than 10 years remained uncollected as of December 31, 2020, depriving the Authority of funds that could have been used in its operation.

We recommended that Management:

- a) Coordinate with its debtors, especially First Cagayan Leisure and Resort Corporation, to gather data to be used to reassess the credit risk on past due accounts taking into consideration the impact of the pandemic on their operations. Prepare the necessary adjustment for loss allowance, if warranted; and
 - b) Intensify collection strategies to maximize utilization of funds for other programs/projects.
2. Ten million investment in the Northeastern Luzon Pacific Coastal Service, Inc. (NLPCSI) has been dormant in the last 15 years.

We recommended that the CEZA Board of Directors convene and discuss the possibility of taking over NLPCSI as a wholly-owned subsidiary of CEZA and facilitate the start of its operations to earn income from its investment in NLPCSI.

3. Nine service vehicles of CEZA were not yet registered with the Land Transportation Office under its name, despite the lapse of five to twelve years.

We recommended that Management direct the Support Services Department to process and expedite the registration of the vehicles under the name of CEZA.

4. Titles to 13 parcels of land with a total area of 619,436 square meters purchased 23 years ago costing P8.593 million were not transferred/registered in the name of CEZA.

We recommended that Management:

- a) Prioritize the transfer of titles in the name of CEZA to ensure ownership; and
 - b) Direct the Committee on Land Use Reclassification and Land Use Conversion to expedite the transfer of titles in the name of CEZA by closely coordinating and follow up with the concerned agencies in securing the required documents.
5. The validity and accuracy of Rent Income amounting to P16.044 million as of December 31, 2020 could not be ascertained due to the absence of lease agreements between CEZA and its tenants.

We recommended that Management:

- a) Expedite the execution of lease agreements with SMART Communications, Inc. and Cagayan II Electric Cooperative, Inc. to safeguard the interests of CEZA, to support the income recognized in its books and as basis in the determination of the accuracy of account balances presented in the financial statements; and
- b) Follow up and finalize the amended lease agreements with First Cagayan Leisure and Resort Corporation and Cagayan Welfare Export and Import Corporation which include the provision imposing fines and penalties on default or late payments to compensate for the opportunity cost and to discourage late payment of rental fees.

Status of Audit Suspensions, Disallowances and Charges

As of December 31, 2020, the balance of audit disallowances which remained unsettled amounted to P3.230 million were issued prior to October 6, 2009, the effectivity of COA Rules and Regulations on Settlement of Accounts (RRSA). Of this amount, P2.753 million or 85.23 per cent were suspensions which matured into audit disallowance and the remaining P477,167 or 14.77 per cent were outright disallowances.

Status of Implementation of Prior Year's Audit Recommendations

Of the 20 audit recommendations embodied in the CY 2019 Annual Audit Report, 15 were implemented, four were partially implemented and one was not implemented. Details are presented in Part III of this Report.

CAGAYAN ECONOMIC ZONE AUTHORITY
STATEMENTS OF FINANCIAL POSITION

December 31, 2020 and 2019

(In Philippine Peso)

	Note	2020	2019 (As restated)	January 1, 2019 (As restated)
ASSETS				
Current Assets				
Cash and cash equivalents	3	1,119,419,337	1,588,195,522	1,835,542,865
Receivables, net	4	154,110,042	95,805,777	147,863,065
Inventories	5	1,196,466	954,690	613,683
Total Current Assets		1,274,725,845	1,684,955,989	1,984,019,613
Non-Current Assets				
Investment in joint venture	6	691,000,000	691,000,000	691,000,000
Other investments	7	10,000,000	10,000,000	10,000,000
Investment property	8	71,114,451	75,403,894	79,693,337
Property and equipment, net	9	4,731,372,692	4,218,157,395	4,119,885,923
Leased assets, net	10	45,068,253	64,383,219	0
Deferred tax assets	11	55,727,422	8,643,102	0
Other non-current assets	12	161,406,602	159,008,254	38,396,923
Total Non-Current Assets		5,765,689,420	5,226,595,864	4,938,976,183
TOTAL ASSETS		7,040,415,265	6,911,551,853	6,922,995,796
LIABILITIES AND EQUITY				
Current Liabilities				
Financial liabilities	13	58,651,550	74,383,163	4,477,138
Inter-agency payables	14	12,828,426	9,186,749	24,811,378
Other payables	15	1,607,419	14,074,521	133,697,784
Total Current Liabilities		73,087,395	97,644,433	162,986,300
Non-Current Liabilities				
Trust liabilities	16	152,113,239	53,105,527	5,967,402
Deferred credits	17	4,258,287	4,028,915	542,500
Total Non-Current Liabilities		156,371,526	57,134,442	6,509,902
Total Liabilities		229,458,921	154,778,875	169,496,202
EQUITY				
Government Equity	18	6,810,956,344	6,756,772,978	6,753,499,594
TOTAL LIABILITIES AND EQUITY		7,040,415,265	6,911,551,853	6,922,995,796

The notes on pages 9 to 54 form part of these financial statements.

CAGAYAN ECONOMIC ZONE AUTHORITY
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	2020	2019 (As restated)
REVENUE	19	252,702,665	402,224,594
EXPENSES			
Personnel services	20	51,535,726	46,518,632
Maintenance and other operating expenses	21	339,018,362	353,194,469
INCOME FROM OPERATIONS		(137,851,423)	2,511,493
OTHER INCOME (EXPENSES)	22	(1,794,993)	(4,544,194)
LOSS BEFORE INCOME TAX		(139,646,416)	(2,032,701)
INCOME TAX BENEFIT	23	42,010,512	0
LOSS AFTER INCOME TAX		(97,635,904)	(2,032,701)
Subsidy from the National Government	24	31,471,778	19,454,707
NET INCOME/LOSS/TOTAL COMPREHENSIVE INCOME		(66,164,126)	17,422,006

The notes on pages 9 to 54 form part of these financial statements.

CAGAYAN ECONOMIC ZONE AUTHORITY
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	Share Capital (Note 18)	Retained Earnings (Note 2.9)	Total Equity
Balances, December 31, 2018				
as previously reported		5,755,141,585	984,339,633	6,739,481,218
Various adjustments	25		14,018,376	14,018,376
Balances, January 1, 2019 as restated		5,755,141,585	998,358,009	6,753,499,594
Changes in Equity for 2019				
Net income for the year			17,422,006	17,422,006
Dividends	27		(12,269,900)	(12,269,900)
Adjustment due to the adoption of PFRS 16			(1,878,722)	(1,878,722)
Balances, December 31, 2019		5,755,141,585	1,001,631,393	6,756,772,978
Changes in Equity for 2020				
Net loss for the year			(66,164,126)	(66,164,126)
National Government Equity		120,301,496		120,301,496
Donated IT equipment from DICT			45,996	45,996
Balances, December 31, 2020		5,875,443,081	935,513,263	6,810,956,344

The notes on pages 9 to 54 form part of these financial statements.

CAGAYAN ECONOMIC ZONE AUTHORITY
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2020 and 2019
(In Philippine Peso)

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection of receivables		109,913,134	134,178,814
Receipt of income from operations		87,659,337	348,970,084
Receipt of subsidy from the National Government		31,471,778	19,454,707
Receipt of interests from deposits		3,899,327	5,296,342
Amounts received in trust - sale of bid documents, VAT and donation:		2,508,921	2,415,674
Refund of disallowances/cancelled checks		1,593,197	3,153,219
Receipt of customers' deposit		1,141,815	4,217,500
Refund of cash advances		1,110,815	2,059,305
Receipt of unearned income/revenue		316,815	3,800,000
Receipt of miscellaneous income		1,453	541,000
Receipt of guaranty deposit		0	1,949,750
Payment of customers' deposit		0	(1,849,750)
Advances to government corporation		0	(1,960,400)
Payment of financial expenses		(2,500)	(7,266)
Payment of guaranty deposit and prepayment		(303,600)	(770,446)
Payment of other payables		(2,916,865)	(4,342,421)
Payment of trust receipts - honorarium of BAC members, etc.		(3,053,468)	(5,403,316)
Cash advances to officers & employees		(4,835,423)	(11,616,276)
Payment of personal services		(49,538,585)	(43,529,788)
Payment of maintenance and other operating expenses		(156,556,659)	(165,555,816)
Net cash generated from operations		22,409,492	291,000,916
Income taxes paid		(9,213,516)	(29,552,245)
Net cash provided by operating activities		13,195,976	261,448,671
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of disposed assets		0	8,585
Capital expenditures		(587,971,938)	(346,830,486)
Net cash used in investing activities		(587,971,938)	(346,821,901)
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional equity from the National Government		120,301,496	0
Payment of dividends		(13,305,416)	(129,585,989)
Net cash provided by (used in) financing activities		106,996,080	(129,585,989)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(996,303)	(32,388,124)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(468,776,185)	(247,347,343)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,588,195,522	1,835,542,865
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	1,119,419,337	1,588,195,522

The notes on pages 9 to 54 form part of these financial statements.