



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

# **ANNUAL AUDIT REPORT**

**on the**

# **CAGAYAN ECONOMIC ZONE AUTHORITY**

**For the Years Ended December 31, 2019 and 2018**

## 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 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, 2019 stood at 58 permanent/regular 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 288 outsourced personnel were deployed in the three offices.

For CY 2019, CEZA has an approved Corporate Operating Budget of P2.635 billion.

### FINANCIAL HIGHLIGHTS

#### Comparative Financial Position

	2019	2018	Increase (Decrease)
Assets	6,902,908,751	6,927,553,836	(24,645,085)
Liabilities	153,466,224	188,072,618	(34,606,394)
Equity	6,749,442,527	6,739,481,218	9,961,309

## Comparative Results of Operations

	2019	2018	Increase (Decrease)
Income	456,906,085	740,551,957	(283,645,872)
Personnel Services	46,518,632	42,594,324	3,924,308
Maintenance and Other			
Operating Expenses	157,992,498	123,147,034	34,845,464
Non-Cash Expenses	195,201,971	170,123,579	25,078,392
Finance Expenses	4,940,990	2,728	4,938,262
Losses	34,829,988	0	34,829,988
Income Before Tax	17,422,006	404,684,292	(387,262,286)
Income Tax Expense	8,365,968	109,720,169	(101,354,201)
Net Income/Loss	9,056,038	294,964,123	(285,908,085)

## 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, 2019 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, 2019 and 2018. 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 2019 and 2018.

## SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The accuracy and completeness of the Revenue from Licensing Fees amounting to P187.131 million as of December 31, 2019 cannot be ascertained due to insufficient examination and validation of records by CEZA and the Audit Team was unable to conduct validation due to non-access to the system of First Cagayan Leisure and Resort Corporation (FCLRC).

We recommended that Management:

- a) Require its authorized representative/s (including a certified public accountant), as provided in the agreement, to examine and validate regularly the reports submitted by FCLRC to ensure the correctness and completeness of the Revenue from Licensing Fees recognized in CEZA's books; and
  - b) Make representation with FCLRC to provide the COA Audit Team access to its system for audit purposes.
2. The faithful representation of the Lease Income amounting to P14.050 million as of December 31, 2019 could not be ascertained due to the absence of lease agreements between CEZA and two of its tenants, Smart Communications Inc. and Cagayan Electric Cooperative II (CAGELCO II).