

## EXECUTIVE SUMMARY

### Introduction

The Authority of the Freeport of Bataan (AFAB) was created thru Section 11 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 to be known as Freeport Area of Bataan (FAB). The AFAB was created by the Act purposely to operate and manage the FAB in accordance with the provisions of the Act. Pursuant to the Act, the Bataan Economic Zone was deemed abolished upon the organization of the AFAB, which was on June 30, 2010, the date when it officially started its operations.

Pursuant to Section 4 of RA No. 9728, the Freeport Area of Bataan 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 neighboring 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 AFAB's assets, liabilities and equity stood at P1,157 million, P404 million and P753 million, respectively, as of December 31, 2010. It sustained a net loss of P38.9 million for the six-month period ended December 31, 2010.

### Scope of Audit

The audit covered the examination of the accounts and financial transactions of the Authority of the Freeport Area of Bataan for the six-month period ending December 31, 2010 in accordance with the Philippine Standards on Auditing. Our audit was also made to assess the propriety of financial

transactions and determine extent of compliance of the financial operations and transactions of the AFAB with the prescribed laws, rules and regulations.

### **Independent Auditor's Report**

We rendered an unqualified opinion on the fairness of the presentation of the financial statements for the six-month period ending December 31, 2010.

### **Summary of Significant Audit Observations and Recommendations**

1. The P380 million Corporate Operating Budget (COB) of the Authority of the Freeport Area of Bataan (AFAB) for the second semester of 2010 did not pass the review and approval of the President through the Department of Budget and Management (DBM).

We recommend that management – 1) seek the approval of the President thru the DBM on its Corporate Operating Budget for the second semester of 2010 and every budget year thereafter; and 2) require the use and maintenance of Registries of Budget Utilization for Personal Services, MOOE and Capital Outlay to record and monitor the approved budget and the corresponding expenditures/charges during the year.

2. The Authority has not yet submitted its Organizational Structure and Staffing Pattern (OSSP) to the DBM for approval, thus contractual employees were hired with fixed monthly salaries whose ranks/positions and salary grades and rates lacked sufficient legal basis.

We recommend that management seek the approval of the Office of the President through the DBM on AFAB's staffing pattern and position and compensation classification of personnel for the appropriate and proper determination of positions, salary grades and salary rates, pursuant to Section 59 of the GAA of 2010.

3. The Authority designated contractual employees to supervisory positions due to the absence of a duly approved organizational structure and staffing pattern, contrary to CSC Memo Circular No 26, series of 1997 and Section 6 (4) of PD 807 and Section 209 of GAAM, Volume 1.

We recommend that management – 1) stop the practice of designating contractual personnel to supervisory positions; 2) act swiftly in submitting its staffing pattern to the DBM for its approval to pave the way for the implementation of a DBM-approved plantilla; 3) comply with Section 50 of the 2010 General Appropriations Act relative to the employment of contractual personnel, and CSC-DBM Joint Circular No. 99-7 dated December 29, 1999 on the compensation of contractual personnel.

4. The Authority has allowed the payment of monthly representation and transportation allowance (RATA) and extraordinary and miscellaneous expense (EME) allowance to contractual personnel without sufficient legal basis.

We recommend that management 1) act swiftly in submitting its staffing pattern to the DBM for its approval and the determination of the equivalent rank of position and correct RATA and EME rates; 2) comply with the laws and regulations in the granting of RATA and EME to officials to avoid audit suspension and disallowance.

5. The Cash in Bank account is understated by P17,989,148.73 due to unrecorded items and non-compliance with Section 1.4 of the Operation and Maintenance Services Contract Electrical Distributions Systems.

We recommend that management – 1) coordinate and make follow-up action with the PEZA and TRANSCO management to facilitate the immediate transfer of funds from the account of PEZA to the account of AFAB in conformity with Section 1.4 of the Operation and Maintenance Services Contract Electrical Distributions Systems; and 2) take up the necessary correcting entries in the books.

6. The validity and accuracy of the long term liability of P282 million and the current portion of P37.5 million payable to the Bureau of Treasury cannot be established due to the non-execution of the contract/agreement between the AFAB, PEZA and the Department of Finance regarding the transfer of foreign loan. Further, the liability account and expense accounts were understated due to unrecorded interest of P9 million.

We recommend that management – 1) coordinate with the PEZA management and the Secretary of Finance for the immediate execution of contract/agreement, if necessary, or any equivalent instrument in order to formalize the transfer of the OECF loan in the books of accounts of AFAB; and 2) monitor the interest and principal repayments as they fall due and act on the loan principal and interest arrearages incurred by the PEZA.

### **Status of Implementation by the Agency of Prior Year's Audit Recommendations**

This is the first audit report rendered for the Authority of the Freeport of Bataan.