



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

ANNUAL AUDIT REPORT

on the

SUBIC BAY METROPOLITAN AUTHORITY

For the Years Ended December 31, 2023 and 2022

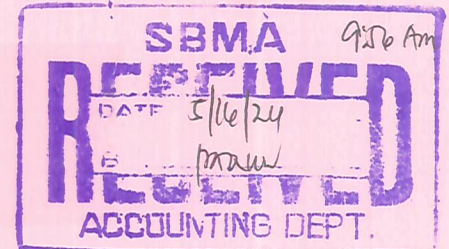


REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
REGIONAL OFFICE NO. III
City of San Fernando, Pampanga

April 15, 2024

THE BOARD OF DIRECTORS

Subic Bay Metropolitan Authority
Subic Bay Freeport Zone, Olongapo City



Dear Directors:

We are pleased to transmit the Annual Audit Report on the audit of the Subic Bay Metropolitan Authority (SBMA), Subic Bay Freeport Zone, Olongapo City for the Calendar Year 2023 in compliance with Section 43 of the Government Auditing Code of the Philippines (P.D. No. 1445).

The audit was conducted to (a) ascertain the level of assurance that may be placed on management assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). We rendered a qualified opinion on the fairness of presentation of the financial statements of the Subic Bay Metropolitan Authority as of December 31, 2023 owing to material accounting errors and omissions as cited in the Independent Auditor's Report in Part I of the report.

The significant audit observations and recommendations requiring immediate action are as follows:

1. The reliability and completeness of the Property, Plant and Equipment (PPE) accounts with a carrying amount of ₱19,466,402,100.15 as of year-end, are uncertain due to several noted deficiencies which include (i) failure to reconcile Report on the Physical Count of PPE (RPCPPE) with Accounting records for Buildings and Other Structures; (ii) omission to derecognize demolished and non-existing facilities amounting to ₱1,410,312,118.41; (iii) non-recognition of existing facilities; (iv) inclusion of leasable land in the PPE valued at ₱13,933,376,379.10; (v) unreconciled discrepancies in Other PPE records; (vi) inclusion of disposed properties in the RPCPPE; (vii) non-disposal and failure to recognize impairment losses for unserviceable properties with carrying amount of ₱33,305,636.08; and non- reclassification of Construction in Progress.

We recommended that Management undertake the following courses of action:

- a. For the Accounting Department (AD) and Land and Asset Development Department (LADD) to prepare schedules or enhance current records that will be comparable-ready once wall-to-wall inventory is finished by setting up common tagging or reference number in addition to presenting therein important details of individual facilities as much as possible, to ease the reconciliation process and to ensure that proper adjusting entries will be made;
 - b. Pursue the procurement or engagement of a Property Appraiser for the appraisal of unrecorded facilities;
 - c. Pursue the procurement of the Perimeter Boundary Survey to proceed with the determination of the fair value of the land at present;
 - d. Reclassify the value of the leasable land to Investment Property;
 - e. AD to reclassify fully depreciated assets from Other Property, Plant and Equipment which were already identified and reconciled with Procurement and Property Management Department (PPMD);
 - f. PPMD to validate the existence of Works of Arts and Archeological Specimens account amounting to ₱3,517,000.00 which was not included in the RPCPPE;
 - g. Cause the disposal of unserviceable properties as listed under the prepared Inventory and Inspection Report of Unserviceable Property (IIRUP) in accordance with COA-DBM Joint Circular No. 2024-01 dated January 30, 2024;
 - h. Pending disposal, pursue the appraisal of the items listed per IIRUP and recognize any impairment loss, if necessary;
 - i. Validate and de-recognize the amount disposed per RPCPPE in the books with a total carrying amount of ₱653,235.64;
 - j. Validate and upon determination on the proper nature and its status, reclassify/adjust the amounts in the Construction in Progress (CIP) account not directly related to infrastructure projects amounting to ₱1,149,296.00;
 - k. Cause the transfer of fully paid and completed projects to their appropriate PPE accounts; and
 - l. Ensure recognition of the accumulated cost or other appropriate value of any project which is still in the process of construction or development including its corresponding accruals at year-end.
2. Due to inadequate detection controls and delayed submission of Sublease Agreements/Lease Agreements (SLAs/LAs) and pre-termination documents, transactions pertaining to Accounts Receivable in the Integrated Financial Management System (IFMS) were not timely recognized, thereby understating the Receivables by ₱37.42 million, Retained Earnings by ₱9.40 million, Service and Business Income by ₱33.13 million, and overstating the Deferred Credits/Unearned Income by ₱5.10 million.

We recommended that Management:

- a. Require the LADD, Business and Investment Group (BIG) and other concerned departments the timely submission of duly approved contracts and pre-termination documents to the Accounting Department;
 - b. Establish a board policy that outlines guidelines for the structured timeline for the submission of signed SLAs/LAs and other required documents by the locators, specifying the required turnaround time for post-approval signing and enforce penalties for the non-compliance;
 - c. Consider streamlining the documentation process and provide locators with clear instructions and templates to facilitate faster and more efficient submissions;
 - d. Conduct regular communication and reminders to locators regarding the importance of timely submission of signed lease agreements; and
 - e. Submit to the Audit Team duly approved contracts within the prescribed period as required in COA Circular No.2009-001 dated February 12, 2009.
3. The accuracy of the balance of Inventory accounts in the amount of ₱26,158,833.48 as of December 31, 2023 is doubtful due to the various deficiencies such as a) overstocking of supplies and materials; b) non-disposal of obsolete items costing ₱5,945,213.14; and c) non-recognition of allowance for impairment.

We recommended that Management undertake the following courses of action:

- a. Establish clear inventory control policies and strategies to prevent over stocking and minimize wastage;
- b. Inform the end users in the proper preparation of Project Procurement Management Plan (PPMP);
- c. Conduct regular review and assessments of inventory management practices to identify areas for improvement and implement corrective actions as needed;
- d. Ensure compliance with relevant regulations and guidelines regarding inventory management, including limitations on stock accumulation as stipulated in EO No. 292 or Administrative Code of 1987;
- e. Establish and adhere to a systematic and timely disposal process for obsolete inventories, in accordance with the COA and DBM Joint Circular No. 2024-1 dated January 30, 2024, as a way forward;
- f. Implement a regular schedule of inventory inspections and disposal, ensuring that unserviceable or obsolete items are promptly identified and disposed of; and
- g. Require the Accounting Department to properly recognize an Allowance for Impairment on obsolete properties in accordance with Philippine Accounting Standards (PAS) 2. This involves assessing the net realizable value of inventories and writing down their carrying amount to reflect any impairment.

The audit observations, together with the recommended courses of action, are discussed in detail in Part II of the report. These, along with the prior year's recommendations not yet acted upon and included in Part III of the report, were discussed with the officials and staff of the Agency during the exit conference on April 15, 2024.

We appreciate the invaluable support and cooperation extended to our Audit Team by the officials and staff of the Agency.

Very truly yours,

COMMISSION ON AUDIT

By:



OMAR S. ROQUE
Regional Director

cc: *The President of the Republic of the Philippines*
 The Vice-President of the Republic of the Philippines
 The President of the Senate
 The Speaker of the House of Representatives
 The Chairperson-Senate Finance Committee
 The Chairperson-Appropriations Committee
 The Secretary of the Department of the Budget and Management
 The Governance Commission for Government-Owned or Controlled Corporations
 The Presidential Management Staff, Office of the President
 The Assistant Commissioner, CGS, COA, Quezon City
 The Commission Proper, COA, Quezon City
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REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
REGIONAL OFFICE NO. III
City of San Fernando, Pampanga

April 15, 2024

Engr. EDUARDO JOSE L. ALIÑO
Chairperson and Administrator
Subic Bay Metropolitan Authority
Subic Bay Freeport Zone, Olongapo City

Dear **Chairperson and Administrator Aliño**:

We are pleased to transmit the Annual Audit Report on the audit of the Subic Bay Metropolitan Authority (SBMA), Subic Bay Freeport Zone, Olongapo City for the Calendar Year 2023 in compliance with Section 43 of the Government Auditing Code of the Philippines (P.D. No. 1445).

The audit was conducted to (a) ascertain the level of assurance that may be placed on management assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). We rendered a qualified opinion on the fairness of presentation of the financial statements of the Subic Bay Metropolitan Authority as of December 31, 2023 owing to material accounting errors and omissions as cited in the Independent Auditor's Report in Part I of the report.

The significant audit observations and recommendations requiring immediate action are as follows:

1. The reliability and completeness of the Property, Plant and Equipment (PPE) accounts with a carrying amount of ₱19,466,402,100.15 as of year-end, are uncertain due to several noted deficiencies which include (i) failure to reconcile Report on the Physical Count of PPE (RPCPPE) with Accounting records for Buildings and Other Structures; (ii) omission to derecognize demolished and non-existing facilities amounting to ₱1,410,312,118.41; (iii) non-recognition of existing facilities; (iv) inclusion of leasable land in the PPE valued at ₱13,933,376,379.10; (v) unreconciled discrepancies in Other PPE records; (vi) inclusion of disposed properties in the RPCPPE; (vii) non-disposal and failure to recognize impairment losses for unserviceable properties with carrying amount of ₱33,305,636.08; and non- reclassification of Construction in Progress.

We recommended that Management undertake the following courses of action:

- a. For the Accounting Department (AD) and Land and Asset Development Department (LADD) to prepare schedules or enhance current records that will be comparable-ready once wall-to-wall inventory is finished by setting up common tagging or reference number in addition to presenting therein important details of individual facilities as much as possible, to ease the reconciliation process and to ensure that proper adjusting entries will be made;
 - b. Pursue the procurement or engagement of a Property Appraiser for the appraisal of unrecorded facilities;
 - c. Pursue the procurement of the Perimeter Boundary Survey to proceed with the determination of the fair value of the land at present;
 - d. Reclassify the value of the leasable land to Investment Property;
 - e. AD to reclassify fully depreciated assets from Other Property, Plant and Equipment which were already identified and reconciled with Procurement and Property Management Department (PPMD);
 - f. PPMD to validate the existence of Works of Arts and Archeological Specimens account amounting to ₱3,517,000.00 which was not included in the RPCPPE;
 - g. Cause the disposal of unserviceable properties as listed under the prepared Inventory and Inspection Report of Unserviceable Property (IIRUP) in accordance with COA-DBM Joint Circular No. 2024-01 dated January 30, 2024;
 - h. Pending disposal, pursue the appraisal of the items listed per IIRUP and recognize any impairment loss, if necessary;
 - i. Validate and de-recognize the amount disposed per RPCPPE in the books with a total carrying amount of ₱653,235.64;
 - j. Validate and upon determination on the proper nature and its status, reclassify/adjust the amounts in the Construction in Progress (CIP) account not directly related to infrastructure projects amounting to ₱1,149,296.00;
 - k. Cause the transfer of fully paid and completed projects to their appropriate PPE accounts; and
 - l. Ensure recognition of the accumulated cost or other appropriate value of any project which is still in the process of construction or development including its corresponding accruals at year-end.
2. Due to inadequate detection controls and delayed submission of Sublease Agreements/Lease Agreements (SLAs/LAs) and pre-termination documents, transactions pertaining to Accounts Receivable in the Integrated Financial Management System (IFMS) were not timely recognized, thereby understating the Receivables by ₱37.42 million, Retained Earnings by ₱9.40 million, Service and Business Income by ₱33.13 million, and overstating the Deferred Credits/Unearned Income by ₱5.10 million.

We recommended that Management:

- a. Require the LADD, Business and Investment Group (BIG) and other concerned departments the timely submission of duly approved contracts and pre-termination documents to the Accounting Department;
 - b. Establish a board policy that outlines guidelines for the structured timeline for the submission of signed SLAs/LAs and other required documents by the locators, specifying the required turnaround time for post-approval signing and enforce penalties for the non-compliance;
 - c. Consider streamlining the documentation process and provide locators with clear instructions and templates to facilitate faster and more efficient submissions;
 - d. Conduct regular communication and reminders to locators regarding the importance of timely submission of signed lease agreements; and
 - e. Submit to the Audit Team duly approved contracts within the prescribed period as required in COA Circular No.2009-001 dated February 12, 2009.
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We recommended that Management undertake the following courses of action:

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- b. Inform the end users in the proper preparation of Project Procurement Management Plan (PPMP);
- c. Conduct regular review and assessments of inventory management practices to identify areas for improvement and implement corrective actions as needed;
- d. Ensure compliance with relevant regulations and guidelines regarding inventory management, including limitations on stock accumulation as stipulated in EO No. 292 or Administrative Code of 1987;
- e. Establish and adhere to a systematic and timely disposal process for obsolete inventories, in accordance with the COA and DBM Joint Circular No. 2024-1 dated January 30, 2024, as a way forward;
- f. Implement a regular schedule of inventory inspections and disposal, ensuring that unserviceable or obsolete items are promptly identified and disposed of; and
- g. Require the Accounting Department to properly recognize an Allowance for Impairment on obsolete properties in accordance with Philippine Accounting Standards (PAS) 2. This involves assessing the net realizable value of inventories and writing down their carrying amount to reflect any impairment.

The audit observations, together with the recommended courses of action, are discussed in detail in Part II of the report. These, along with the prior year's recommendations not yet acted upon and included in Part III of the report, were discussed with the officials and staff of the Agency during the exit conference on April 15, 2024.

We request that the recommended measures be implemented, and we would appreciate receiving an action plan and status report, thru accomplishing the attached **Agency Action Plan and Status of Implementation (AAPSI)** form, to be submitted to the Audit Team within 60 days from receipt of this report, pursuant to Section 99 of the General Provisions of the General Appropriations Act for Fiscal Year 2023.

We appreciate the invaluable support and cooperation extended to our Audit Team by the officials and staff of the Agency.

Very truly yours,

COMMISSION ON AUDIT

By:



OMAR S. ROQUE
Regional Director

cc: *The President of the Republic of the Philippines*
 The Vice-President of the Republic of the Philippines
 The President of the Senate
 The Speaker of the House of Representatives
 The Chairperson-Senate Finance Committee
 The Chairperson-Appropriations Committee
 The Secretary of the Department of the Budget and Management
 The Governance Commission for Government-Owned or Controlled Corporations
 The Presidential Management Staff, Office of the President
 The Assistant Commissioner, CGS, COA, Quezon City
 The Commission Proper, COA, Quezon City
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 COA Commission Central Library (soft copy)

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Name and Position of Agency Officer

Date _____

EXECUTIVE SUMMARY

1. INTRODUCTION

Section 13 of Republic Act (R.A.) No. 7227 created the corporate body known as the Subic Bay Metropolitan Authority (SBMA). The SBMA is the operating and implementing arm of the Government of the Philippines in developing the 67,000-hectare area of Subic Bay Freeport (SBF) into a self-sustaining industrial, commercial, financial, and investment and academe center to generate, among others, employment opportunities in and around the Zone.

The SBMA plays a key role in the national government's efforts to achieve international competitiveness and provide for its integration with the global economy.

To accomplish this, it shall endeavor to manage and develop the ship repair and shipbuilding facilities, container port, as well as the oil storage and refueling stations; attract and maintain local and foreign investments to promote the economic and social development of the country primarily in Central Luzon; establish and regulate the operation and maintenance of utilities, services and infrastructures; operate directly and indirectly tourism-related activities; and protect the Freeport's forests.

2. FINANCIAL HIGHLIGHTS

The comparative financial condition and results of operations of SBMA for the years ending December 31, 2023 and December 31, 2022 are as follows:

(In Thousands of Pesos)			Increase/ (Decrease)	
Comparative Financial Position				
	2023	2022	Amount	%
Total Assets	₱38,413,540	₱37,394,553	₱1,018,987	2.72%
Total Liabilities	₱15,777,038	₱16,165,423	(₱388,385)	(2.40%)
Stockholders' Equity	₱22,636,502	₱21,229,130	₱1,407,372	6.63%
Comparative Results of Operations				
Total Revenues	₱ 5,726,417	₱ 5,842,635	(₱116,218)	(1.99%)
Total Expenses	₱ 3,596,937	₱ 3,602,260	(₱ 5,323)	(0.15%)
Net Assistance / Subsidy	₱ 13,037	₱ 11,493	₱ 1,544	13.43%
Net Income after Tax	₱ 2,142,517	₱ 2,251,868	(₱109,351)	(4.86%)

3. SCOPE OF AUDIT

The audit covered the examination of the accounts and transactions of SBMA for the period January 1 to December 31, 2023 in accordance with the 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 year ended December 31, 2023. Also, we conducted our audits to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures, specifically the 2023 audit foci and thrusts, in accordance with the Unnumbered Memorandum dated August 30, 2023, issued by the Regional Director of COA Regional Office No. III, Omar S. Roque, concerning the Specific

Audit Instructions (SAIs) in the conduct of the CY 2023 Financial and Compliance Audit, pursuant to COA Memorandum No. 2016-023 dated November 14, 2016.

4. INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

We rendered a qualified opinion on the fairness of presentation of the financial statements of the Subic Bay Metropolitan Authority as of December 31, 2023 in view of accounting errors and omissions affecting the different accounts as follows:

1. The reliability and completeness of the Property, Plant and Equipment (PPE) accounts with a carrying amount of ₱19,466,402,100.15 as of year-end, are uncertain due to several noted deficiencies which include (i) failure to reconcile Report on the Physical Count of PPE (RPCPPE) with Accounting records for Buildings and Other Structures; (ii) omission to derecognize demolished and non-existing facilities amounting to ₱1,410,312,118.41; (iii) non-recognition of existing facilities; (iv) inclusion of leasable land in the PPE valued at ₱13,933,376,379.10; (v) unreconciled discrepancies in Other PPE records; (vi) inclusion of disposed properties in the RPCPPE; (vii) non-disposal and failure to recognize impairment losses for unserviceable properties with carrying amount of ₱33,305,636.08; and non- reclassification of Construction in Progress.

We recommended that Management undertake the following courses of action:

- a. For the Accounting Department (AD) and Land and Asset Development Department (LADD) to prepare schedules or enhance current records that will be comparable-ready once wall-to-wall inventory is finished by setting up common tagging or reference number in addition to presenting therein important details of individual facilities as much as possible, to ease the reconciliation process and to ensure that proper adjusting entries will be made;
- b. Pursue the procurement or engagement of a Property Appraiser for the appraisal of unrecorded facilities;
- c. Pursue the procurement of the Perimeter Boundary Survey to proceed with the determination of the fair value of the land at present;
- d. Reclassify the value of the leasable land to Investment Property;
- e. AD to reclassify fully depreciated assets from Other Property, Plant and Equipment which were already identified and reconciled with Procurement and Property Management Department (PPMD);
- f. PPMD to validate the existence of Works of Arts and Archaeological Specimens account amounting to ₱3,517,000.00 which was not included in the RPCPPE;
- g. Cause the disposal of unserviceable properties as listed under the prepared Inventory and Inspection Report of Unserviceable Property (IIRUP) in accordance with COA-DBM Joint Circular No. 2024-01 dated January 30, 2024;
- h. Pending disposal, pursue the appraisal of the items listed per IIRUP and recognize any impairment loss, if necessary;

- i. Validate and de-recognize the amount disposed per RPCPPE in the books with a total carrying amount of ₱653,235.64;
 - j. Validate and upon determination on the proper nature and its status, reclassify/adjust the amounts in the Construction in Progress (CIP) account not directly related to infrastructure projects amounting to ₱1,149,296.00;
 - k. Cause the transfer of fully paid and completed projects to their appropriate PPE accounts; and
 - l. Ensure recognition of the accumulated cost or other appropriate value of any project which are still in the process of construction or development including its corresponding accruals at year-end.
2. Twelve unrecognized motor vehicles with total carrying amount of ₱458,515.70 and nine unbooked vehicles due to lack of valuation, resulted in the understatement of the Motor, Vehicles, Land Transportation Equipment and Accessories, as well as Retained Earnings (RE) accounts.
 3. The non-disposal of 150 unserviceable motor vehicles with a carrying amount of ₱7,619,154.89 and the non-provision of impairment loss resulted in the overstatement of the PPE and RE accounts.

We recommended that Management undertake the following courses of action:

- a. Require the Procurement and Property Management Department (PPMD), Transportation Division and Accounting Division to reconcile the unrecorded vehicles, closely coordinate for the timely recording of acquired vehicles thru donation and effect the necessary adjustment in the books of account if warranted;
 - b. Dispose the unserviceable motor vehicles in accordance with the COA and DBM Joint Circular No. 2024-1 dated January 30, 2024, Revised Manual on the Disposal of Government Properties, to prevent losses to the government resulting from further deteriorations; and
 - c. Pending disposal, provide allowance for impairment loss of unserviceable motor vehicles to ensure that the assets are carried at no more than their recoverable amount.
4. Due to inadequate detection controls and delayed submission of Sublease Agreements/Lease Agreements (SLAs/LAs) and pre-termination documents, transactions pertaining to Accounts Receivable in the Integrated Financial Management System (IFMS) were not timely recognized, thereby understating the Receivables by ₱37.42 million, Retained Earnings by ₱9.40 million, Service and Business Income by ₱33.13 million, and overstating the Deferred Credits/Unearned Income by ₱5.10 million.

We recommended that Management:

- a. Require the Land and Asset Development Department (LADD), Business and Investment Group (BIG) and other concerned departments the timely submission of

duly approved contracts and pre-termination documents to the Accounting Department;

- b. Establish a board policy that outlines guidelines for the structured timeline for the submission of signed SLAs/LAs and other required documents by the locators, specifying the required turnaround time for post-approval signing and enforce penalties for the non-compliance;
 - c. Consider streamlining the documentation process and provide locators with clear instructions and templates to facilitate faster and more efficient submissions;
 - d. Conduct regular communication and reminders to locators regarding the importance of timely submission of signed lease agreements; and
 - e. Submit to the Audit Team duly approved contracts within the prescribed period as required in COA Circular No.2009-001 dated February 12, 2009.
5. Some obsolete properties with carrying amount of ₱5,945,213.14 were included in the Inventory account without the Allowance for Impairment due to the absence of appraised values, which is not in accordance with Philippine Accounting Standards (PAS) 2, resulting to overstatement of Inventory and Maintenance and Other Operating Expenses (MOOE) account in the Financial Statements.

We recommended that Management require the Accounting Department to properly recognize an Allowance for Impairment on obsolete properties in accordance with PAS 2. This involves assessing the net realizable value of inventories and writing down their carrying amount to reflect any impairment.

5. SUMMARY OF OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The Investment Property (IP) accounts with carrying amount of ₱5,255,334,361.18 as of year-end were misstated due to a) unverified beginning balance; b) misclassified leasable land; and c) unrecorded lessee's development commitment that were turned-over to the Authority due to pre-termination/cancellation, termination or expiration of the Lease Agreement.

We recommended that Management:

- a. Develop standardized procedures and guidelines for the turn-over of expired/terminated lease properties to ensure timely valuation or appraisal, recording and recognition in the books of the Authority;
- b. Strengthen coordination among the Business Investment Department (BID), LADD, PPMD and other concerned departments to expedite the final inspection process and facilitate the transfer of properties;
- c. Conduct a physical verification of the beginning balance of the Investment Property accounts and ensure proper reclassification to the appropriate accounts; and

- d. Properly identify, appraise/value and record the properties resulting from development commitments in the Investment Property account.
2. The existence of the long outstanding payables of more than three (3) years amounting to ₱38,373,849.41, and unreversed accounts payables for more than 10 years amounting to ₱556,884.10 cast doubt on the accuracy and reliability of the Accounts Payable account with the balance of ₱490,114,532.16, thus resulting to overstatement of accounts payable and understatement of equity accounts.

We recommended that Management:

- a. Instruct the Treasury (CMD) and Accounting (Payable Division) to coordinate regarding the unclaimed checks and make a monthly reconciliation to determine the status of the unreleased checks;
- b. Instruct the Human Resource Management Department (HRMD) and the Cost Accounting Division to coordinate in evaluating the unclaimed terminal pay due to lack of documents/requirements; and
- c. Evaluate the validity of the long outstanding payables specially those more than 10 years and revert back to appropriate equity account.

6. SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES AT YEAR-END

Audit disallowances amounting to ₱11,547,789.56 which are not yet final and executory remained outstanding as of year-end pursuant to COA Circular No. 2009-006 dated September 15, 2009. Likewise, audit disallowances prior to the effectivity of the aforementioned Circular amounting to ₱134,176,140.84 which have become final and executory through COA Notice of Finality of Decision (NFD) No. 2021-233 dated October 13, 2021 and COA Order of Execution No. 2021-023 dated November 2, 2021 remained outstanding.

7. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 57 audit recommendations embodied in prior years' Annual Audit Reports (AARs) and Management Letter (ML), 16 were fully implemented, and 41 were not implemented.

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PART I

AUDITED FINANCIAL STATEMENTS



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
REGIONAL OFFICE NO. III
City of San Fernando, Pampanga

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Subic Bay Metropolitan Authority
Subic Bay Freeport Zone, Olongapo City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Subic Bay Metropolitan Authority (SBMA), which comprise the statement of financial position as at December 31, 2023 and 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects and possible effects of the matters described in the *Bases for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the SBMA as at December 31, 2023 and 2022, and its comprehensive income, changes in equity, cash flows and notes to financial statements for the year then ended in accordance with the Philippine Financial Reporting Standards (PFRSs).

Bases for Qualified Opinion

As discussed in Part II of this report, there were material accounting errors and omissions that affected the fairness of presentation of the accounts in the financial statements as follows:

1. The reliability and completeness of the Property, Plant and Equipment (PPE) accounts with a carrying amount of ₱19,466,402,100.15 as of year-end, are uncertain due to several noted deficiencies which include (i) failure to reconcile Report on the Physical Count of PPE (RPCPPE) with Accounting records for Buildings and Other Structures; (ii) omission to derecognize demolished and non-existing facilities amounting to ₱1,410,312,118.41; (iii) non-recognition of existing facilities; (iv) inclusion of leasable land in the PPE valued at ₱13,933,376,379.10; (v) unreconciled discrepancies in Other PPE records; (vi) inclusion of disposed properties in the RPCPPE; (vii) non-disposal and failure to recognize impairment losses for unserviceable properties with carrying amount of ₱33,305,636.08; and non- reclassification of Construction in Progress.

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3. The non-disposal of 150 unserviceable motor vehicles with a carrying amount of ₱7,619,154.89 and the non-provision of impairment loss resulted in the overstatement of the PPE and RE accounts.
4. Due to inadequate detection controls and delayed submission of Sublease Agreements/Lease Agreements (SLAs/LAs) and pre-termination documents, transactions pertaining to Accounts Receivable in the Integrated Financial Management System (IFMS) were not timely recognized, thereby understating the Receivables by ₱37.42 million, Retained Earnings by ₱9.40 million, Service and Business Income by ₱33.13 million, and overstating the Deferred Credits/Unearned Income by ₱5.10 million.
5. Some obsolete properties with carrying amount of ₱5,945,213.14 were included in the Inventory account without the Allowance for Impairment due to the absence of appraised values, which is not in accordance with Philippine Accounting Standards (PAS) 2, resulting to overstatement of Inventory and Maintenance and Other Operating Expenses (MOOE) account in the Financial Statements.

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 the SBMA 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 qualified opinion.

Key Audit Matters

Except for the matters described in the *Bases for Qualified Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards (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 SBMA'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 SBMA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the SBMA'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 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 the 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 the SBMA'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 the 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 the SBMA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention on 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 SBMA 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.

From the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or

when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

COMMISSION ON AUDIT


TERESITA C. GUEVARRA
Supervising Auditor

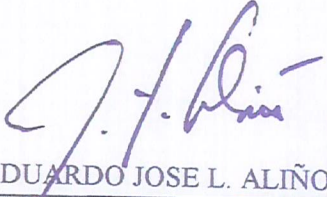
Date: April 15, 2024

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the Subic Bay Metropolitan Authority is responsible for the preparation of the financial statements as at December 31, 2023, 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 misstatement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

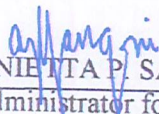
The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

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



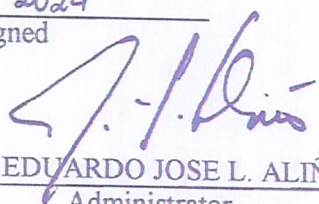
EDUARDO JOSE L. ALIÑO
Chairman of the Board

01-31-2024
Date Signed



ANTONIETTA P. SANQUI
Deputy Administrator for Finance

01-31-2024
Date Signed



EDUARDO JOSE L. ALIÑO
Administrator

01-31-2024
Date Signed

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF FINANCIAL POSITION (All Funds)
As of December 31, 2023 and 2022
(In thousand pesos)

	Notes	2023	2022
ASSETS			
Current Assets			
Cash and Cash Equivalents	3.4, 4	437,340	613,726
Investments	5	4,496,912	3,485,930
Receivables, Net	6	892,507	917,797
Inventories	3.5, 7	26,159	31,463
Other Current Assets	11	3,744,812	2,429,861
Total Current Assets		9,597,730	7,478,777
Non-Current Assets			
Receivables, Net	6	10,221	10,239
Investments	5	553,516	519,062
Investment Property, Net	3.7, 8	5,255,334	5,481,998
Property, Plant and Equipment, Net	3.8, 9	19,466,402	19,208,716
Deferred Tax Asset	10	8,987	8,648
Other Non-Current Assets	11	3,521,350	4,687,113
Total Non-Current Assets		28,815,810	29,915,776
TOTAL ASSETS		38,413,540	37,394,553
LIABILITIES			
Current Liabilities			
Financial Liabilities	12	729,388	819,754
Inter-Agency Payables	13	742,625	747,655
Intra-Agency Payables	14	0	212,224
Trust Liabilities	15	640,590	388,506
Deferred Credits/Unearned Income	16	388,164	331,025
Provisions	17	196,750	217,275
Other Payables	18	1,843,955	1,614,157
Total Current Liabilities		4,541,472	4,330,596
Non-Current Liabilities			
Financial Liabilities	12	3,268,884	3,702,533
Trust Liabilities	15	535,979	500,997
Deferred Credits/Unearned Income	16	6,763,492	6,532,336
Other Payables	18	667,211	1,098,961
Total Non-Current Liabilities		11,235,566	11,834,827
Total Liabilities		15,777,038	16,165,423
EQUITY			
Government Equity	19	20,043,566	20,043,566
Revaluation Surplus	20	31,767	31,767
Retained Earnings/(Deficit)		2,561,169	1,153,797
Total Equity		22,636,502	21,229,130
TOTAL LIABILITIES AND EQUITY		38,413,540	37,394,553

The notes on pages 10 to 48 form part of these financial statements

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF FINANCIAL PERFORMANCE (All Funds)
For the Years Ended December 31, 2023 and 2022
(In thousand pesos)

	<i>Notes</i>	2023	2022
Income			
Service and Business Income	21	4,254,433	4,130,083
Shares, Grants and Donations	22	6,454	14,166
Gains	23	1,463,780	1,698,174
Other Non-Operating Income		1,750	212
Total Income		5,726,417	5,842,635
Expenses			
Personnel Services	24	983,050	998,752
Maintenance and Other Operating Expenses	25	577,428	578,109
Financial Expenses	26	71,047	78,490
Direct Cost		0	0
Non-Cash Expenses	27	1,835,716	1,810,520
Total Expenses		3,467,241	3,465,871
Profit/(Loss) Before Tax		2,259,176	2,376,764
Income Tax Expense/(Benefit)	28	129,696	136,389
Profit/(Loss) After Tax		2,129,480	2,240,375
Net Assistance/Subsidy/(Financial Assistance/Subsidy/Contribution)		13,037	11,493
Net Income/(Loss)		2,142,517	2,251,868
Other Comprehensive Income/(Loss) for the Period		0	0
Comprehensive Income/(Loss)		2,142,517	2,251,868

The notes on pages 10 to 48 form part of these financial statements

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF CHANGES IN EQUITY (All Funds)
For the Years Ended December 31, 2023 and 2022
(In thousand pesos)

	Revaluation Surplus	Retained Earnings (Deficit)	Contributed Capital	TOTAL
Restated Balance at January 1, 2022	31,767	1,732,748	20,043,566	21,808,081
Changes in Equity for 2022				
Add/(deduct):				
Comprehensive Income for the year	0	2,251,868	0	2,251,868
Dividends	0	-1,110,117	0	-1,110,117
Other Adjustments	0	-1,720,702	0	-1,720,702
Balance at December 31, 2022	31,767	1,153,797	20,043,566	21,229,130
Changes in Equity for 2023				
Add/(deduct):				
Comprehensive Income for the year	0	2,142,517	0	2,142,517
Dividends	0	-1,334,421	0	-1,334,421
Other Adjustments	0	599,276	0	599,276
Balance at December 31, 2023	31,767	2,561,169	20,043,566	22,636,502

The notes on pages 10 to 48 form part of these financial statements

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF CASH FLOWS (All Funds)
For the Years Ended December 31, 2023 and 2022
(In thousand pesos)

	Notes	2023	2022
Cash Flows from Operating Activities			
Cash Inflows			
Collection of Income/Revenue		1,438,553	1,377,548
Receipt of Assistance/Subsidy		347,817	392,898
Collection of Receivables		2,234,392	2,165,808
Receipt of Inter-Agency Fund Transfers		289,284	248,729
Receipt of Intra-Agency Fund Transfers		0	172,938
Trust Receipts		895,505	1,537,846
Other Receipts		827,664	656,575
Adjustments		1,423	1,667
Total Cash Inflows		6,034,638	6,554,009
Cash Outflows			
Payment of Expenses		1,305,736	1,268,767
Purchase of Inventories		4,221	6,086
Grant of Cash Advances		18,623	19,110
Prepayments		15,743	14,391
Remittance of Personnel Benefit Contributions and Mandatory Deductions		370,415	377,524
Grant of Financial Assistance/Subsidy/Contribution		13,984	16,456
Release of Inter-Agency Fund Transfers		11,247	15,985
Release of Intra-Agency Fund Transfers		0	2,084,945
Other Disbursements		697,543	11,920
Adjustments		166,628	15,267
Total Cash Outflows		2,604,140	3,830,451
Net Cash Provided by/(Used in) Operating Activities		3,430,498	2,723,558
Cash Flows from Investing Activities			
Cash Inflows			
Proceeds from Sale/Disposal of Property, Plant, and Equipment		0	4,455
Receipt of Interest Earned		93,937	48,772
Proceeds from Matured Investments/Redemption of Long-term Investments/Return on Investments		8,426,036	6,564,465
Total Cash Inflows		8,519,973	6,617,692
Cash Outflows			
Purchase/Construction of Investment Property		0	0
Purchase/Construction of Property, Plant and Equipment		570,025	566,456
Purchase/Acquisition of Investments		9,768,325	7,849,228
Total Cash Outflows		10,338,350	8,415,684
Net Cash Provided By/(Used In) Investing Activities		-1,818,377	-1,797,992
Cash Flows from Financing Activities			
Cash Inflows			
Proceeds from Incurrence of Financial Liabilities		0	0
Contribution from National Government		0	0
Total Cash Inflows		0	0
Cash Outflows			
Payment of Long-Term Liabilities		223,743	237,670
Payment of Interest on Loans and Other Financial Charges		0	0
Restricted Cash and Other Financial Charges		0	0
Payment of Cash Dividends		1,524,963	1,128,512
Total Cash Outflows		1,748,706	1,366,182
Net Cash Provided By/(Used In) Financing Activities		-1,748,706	-1,366,182
Increase/(Decrease) in Cash and Cash Equivalents		-136,585	-440,616
Effects of Exchange Rate Changes on Cash and Cash Equivalents	29	-39,801	522,611
Cash and Cash Equivalents, January 1		613,726	531,731
Cash and Cash Equivalents, December 31		437,340	613,726

The notes on pages 10 to 48 form part of these financial statements