

## EXECUTIVE SUMMARY

### INTRODUCTION

#### The Agency

During World War II, the seat of the Zamboanga Provincial Government was transferred from the City of Zamboanga to Dipolog City. The huge Zamboanga province was divided into two provinces, namely, Zamboanga del Norte (ZDN) and Zamboanga del Sur (ZDS) with Dipolog City and Pagadian City as the capital, respectively, by virtue of Republic Act (RA) No. 711, which was enacted on June 6, 1952 by then President Elpidio Quirino.

#### Audit Methodology

The Commission has been implementing the risk-based audit in the conduct of its audit services. However, to meet the evolving developments in public governance and fund management, the results-based approach in audit was incorporated. The integration of these two approaches, called the Integrated Results and Risk-Based Audit (IRRBA) Methodology, was applied in the audit of the accounts and operations of the Local Government Unit (LGU).

#### Scope of Audit

A comprehensive audit was conducted on the accounts and operations of Provincial Government of ZDN for 2016. The audit consisted of review of operating procedures, evaluation of the LGU's programs and projects, interview of concerned government officials and employees, verification, reconciliation, analysis of accounts, and such other procedures considered necessary.

Specifically, the objective of the audit was to ascertain the propriety of the financial transactions and compliance of the agency with prescribed laws, rules and regulations. It was also made to ascertain the accuracy of the financial records and reports as well as the fairness of the presentation of the financial statements. Performance audit was likewise conducted with the objective of informing management where improvement can be instituted in the field of revenues, expenditures and management of resources.

As a result of the risk assessment conducted and in compliance with the identified audit thrust of the Local Government Sector for calendar year (CY) 2016, the following audit areas/accounts were looked into:

1. Inventories and Property, Plant and Equipment (PPE)
2. Fund Transfers to Other LGUs
3. Fund Transfers from the National Government to LGUs; Special Local Road Fund (SLRF)
4. Fund Transfers to Non-Government Organizations (NGOs) / Peoples' Organizations (POs)
5. Funds

- Special Education Fund (SEF)
- 20% Economic Development Fund (EDF)
6. Local Disaster Risk Reduction Management Funds (LDRRMF)
7. Environmental Compliance
8. Credit Financing / Debt Servicing
9. Infrastructure Projects
10. Gender and Development (GAD)
11. Compliance to Bureau of Internal Revenue (BIR) and Government Service Insurance System (GSIS)
12. Procurement Process and Procedures (RA 9184)
13. Payment of Honoraria

## FINANCIAL HIGHLIGHTS

The financial condition and results of operation of the Provincial Government as of December 31, 2016, with comparative figures for 2015 are summarized as follows:

Account	2016	2015
Assets	P 4,543,898,244.25	P 3,676,362,308.40
Liabilities	1,771,654,710.06	1,370,387,876.62
Government Equity	2,772,243,534.19	2,305,974,431.78
Income	1,793,598,297.27	1,604,539,460.50
Expenses	1,224,842,720.01	1,077,208,398.16

The Provincial Government's appropriations and obligations for the year were as follows:

Description	Appropriations	Obligations
Current Legislative:		
General Fund		
Personal Services (PS)	P 524,630,263.76	P 455,767,527.25
Maintenance and Other Operating Expenses (MOOE)	1,180,517,307.00	869,473,815.98
Capital Outlay	723,575,523.15	459,116,143.19
SEF		
MOOE	15,014,245.41	10,982,196.31
Capital Outlay	10,752,000.00	5,830,586.95
<b>Total Current Legislative</b>	<b>P 2,454,489,339.32</b>	<b>P 1,801,170,269.68</b>
Continuing:		
General Fund		
MOOE	P 285,903,406.83	P 114,225,520.04
Capital Outlay	107,607,841.98	42,193,650.06
SEF	1,214,245.41	0
<b>Total Continuing</b>	<b>P 394,725,494.22</b>	<b>P 156,419,170.10</b>
<b>Total for the Year</b>	<b>P 2,849,214,833.54</b>	<b>P 1,957,589,439.78</b>

During the year, the Provincial Government also received funds from the Department of Interior and Local Government (DILG) as winner in the Seal of Good Local Governance (SGLG) Program in the total amount of P4,000,000.00. On the other hand, it transferred a total of P94,746,864.07 from the General Fund to various entities as shown below.

Funds Received / Transferred	2016
<b>General Fund</b>	
Subsidy to Other LGUs	P 53,862,882.27
Subsidy to National Agencies	5,496,424.79
Transfers for Project Equity/Counterpart	35,387,557.01

### **Operational Highlights**

In line with the Province’s thrust of development, the following were some of its major accomplishments:

- Completed eight electrification projects for 2016 amounting to P11.216 million and 36 water supply projects amounting to P44.333 million;
- Completed 29 covered courts totaling P57.16 million;
- Inauguration of newly improved/ upgraded services of the ZDN Medical Center (ZMC) thru local funds with the installation of 18 units Hemo Dialysis machines, 1 unit 16-slice GE Brivo CT Scan, Blood Chemistry, Celtak Hematology Machines, Bacteriology machines, Safety Cabinet and Steam Sterilizer;
- Served 278 indigent beneficiaries allocating P0.695 million pesos for health services;
- Improved population health insurance coverage thru the Point of Care Program of the Philippine Health Insurance Corporation (PHIC) serving 9,182 patients;
- Intensified reforestation of denuded upland areas, initially covering a total of 50 hectares in the uplands of Barangay Sta. Fe in the Municipality of Piñan. A total of 25,000 seedlings of mahogany, manggume, falcate, and other hardwood trees were planted in a period of 10 months;
- Investment of significant amount of funds to sustain and expand the coverage of tis scholarship program to benefit more deserving but financially handicapped youths in the province amounting P14.454 million for School Year (SY) 2015-16 with an average of 860 scholars and P28.623 million for SY 2016-17 with an average of 1,685 scholars; and
- Imposed affordable rental rates of farm tractor pool services to farmers to which 311 farmers benefited and generating a total income of P346,613.00 for the Provincial Government.

### **INDEPENDENT AUDITOR’S REPORT**

We rendered a qualified opinion on the fairness of presentation of the financial statements of the Province of ZDN due to the effects of the deficiencies noted on the balances of some accounts, as summarized below:

1. Non-reconciliation of book balances of the PPE accounts with the balances in the Physical Count of PPE amounting to P28,695,532.26;
2. Recording as expense the amount of P4.000 million investment in a joint venture agreement with the National Agribusiness Corporation (NABCOR) and other LGUs sometime in 2007 and 2009, instead of recording it as investment in joint venture;
3. Recording as expense the various agricultural supplies, welfare goods and zoological animals when the same was not yet distributed and are still being held by the management amounting to P0.463 million;
4. Completed projects under the SEF amounting to P2,748,143.03 were still recorded as Construction in Progress (CIP); and
5. The non-establishment of receivables accruing to hospital operations amounting to P0.567 million.

## **SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS**

In addition to the above- noted deficiencies are the significant audit observations and recommendations noted in the course of audit as follows:

- 1. The suspension of implementation of projects costing P359,629,500.00 under the 20% EDF deprived the constituents of the benefit for which the fund has been set aside.**

We recommended that the delays in implementation be addressed immediately because suspension of projects may result in the delay of completion and increased costs. The Provincial Government should ensure that the sites of the suspended projects are properly secured, completed works are adequately protected against deterioration and the necessary precautionary measures are undertaken during the suspension period like checking and maintenance.

- 2. Fund transfer of P5.0 million to the Municipality of Katipunan for the rehabilitation of Municipal Hall remained unliquidated for more than three years despite its repeated demand, contrary to Section 5.0 of the approved and signed Memorandum of Agreement (MOA), thus, the inaction by the implementing LGU of its obligations is a valid ground for the imposition of disciplinary administrative sanction under Section 60(c) of RA 7160.**

To address this observation, the Provincial Government should make a final demand on the Municipality of Katipunan and state therein that the failure to submit the required Financial and Physical Accomplishment Report as embodied in the

MOA, shall be a valid ground for the imposition of disciplinary action under Section 60(c) of RA 7160 in relation to Section 127 of Presidential Decree (PD) No. 1445.

- 3. One unit ambulance donated by the Philippine Charity Sweepstakes Office (PCSO) intended for use by the Labason District Hospital (LDH) which is under the Provincial Government, is being utilized by the LGU Labason, without the proper transfer and conveyance papers.**

We recommended that the Provincial Government seek from the PCSO authority to assign, transfer, convey the ambulance currently used by the Municipality of Labason pursuant to Paragraph I, Article IV of the Deed of Donation if the ambulance is not needed by the LDH. Otherwise, if the LDH intends to use it as originally planned, require LGU Labason to turn-over the same to the Hospital, to relieve them of accountability over its use.

- 4. The complete lists of programs, projects and activities (PPAs) whether on-going or to be implemented during the year have not been submitted, nor signboards installed on project sites, contrary to the provisions of COA Circular 2013-004 dated January 30, 2013, known as “Information and Publicity on Programs/Projects/Activities of Government Agencies” which deprived the right of the constituents of the Province to information on matters of public concern, thus, promotion of good governance thru transparency, accountability and encouragement of public government participation in the affairs of government could not be fully achieved.**

We recommended that the Provincial Government officials and offices concerned strictly adhere with the provisions of COA Circular No. 2013-004 to avoid possible imposition of sanctions. Infrastructure projects costing not more than P500,000.00 should be provided with signboards half the size of the regular, for practical purposes, provided they are included in the list of projects that are to be implemented during the year.

- 5. The decision to procure goods using shopping as the alternative mode of procurement was lodged to the sole discretion of the Bids and Awards Committee (BAC) Chairman to recommend to the Head of Procuring Entity pursuant to BAC Resolution No. 093 s. 2013, contravening the provisions of RA 9184.**

We recommended that the BAC perform their duties and responsibilities as set forth in Article V of RA 9184. Further, the use of the alternative methods of procurement should only be resorted to based on the circumstances laid down in Article XVI of RA 9184. The BAC is a collegial body, and any decisions in relation to its functions should be performed by all members and not to be lodged to the prerogative of one member.

6. **The Provincial Government could have saved the amount of P335,000.00 had it availed of the National Food Authority’s (NFA) Disaster Preparedness Program whereby an LGU can directly procure rice on credit for relief operations to affected victims whenever a state of calamity is declared, instead of buying rice from a private supplier as shown below:**

<b>Name of Supplier</b>	<b>Purchase Date</b>	<b>Qty.</b>	<b>Price/kg</b>	<b>Total Cost</b>
Private(Central Mart)	April,2016	25,000	43.40	P 1,085,000.00
NFA	January,2016	25,000	30.00	750,000.00
Price Difference (Savings)			<b>13.40</b>	<b>P 335,000.00</b>

We recommended that the Provincial Government:

- a. Procure their rice supply directly from the NFA for better cost and to support the NFA’s mandated functions.
- b. Consider entering into a MOA with the NFA, subject to authority from the Sangguniang Panlalawigan (SP), for the supply of rice requirement during state of calamity and for its outreach program for distribution to affected victims and indigent constituents.
- c. Before deciding to procure rice from local suppliers using the negotiated procurement scheme under Section 53.2 (Emergency Cases), require the Provincial Disaster Risk Reduction Management Office (PDRRMO) to conduct cost-benefit analysis showing the more advantageous price.

### ***Compliance with RA 8291***

The Provincial Government has substantially complied with regulations on the proper deductions of GSIS premiums from the salaries of employees and the timely remittances of Social Insurance and Employees Compensation Fund (SIF and ECIF) to the GSIS. Balance in the Due to GSIS account was remitted during the first quarter of the succeeding year. The following table shows the total deductions and remittances for SIF and ECIF and balances as of December 31, 2016:

<b>Premiums</b>	<b>Deductions</b>	<b>Remitted</b>	<b>Balance</b>
Social Insurance Fund (SIF)	P 57,712,613.97	P 57,244,660.19	P 5,784,271.12
Employee’s Compensation Insurance Fund (ECIF)	1,474,772.82	1,488,965.38	159,485.95
<b>Total (SIF &amp; ECIF)</b>	<b>P 59,187,386.79</b>	<b>P 58,733,625.57</b>	<b>P 5,943,757.07</b>
Balance of Other premiums/ loans/ contributions			
<b>Total Due to GSIS</b>			<b>P 5,943,757.07</b>

### ***Compliance with RA 9679***

Section 7 of RA 9679, the Home Development Mutual Fund Law of 2009, provides that the mandatory share of the government of P100 per month per employee of 1% of their basic salary, provided that the base shall not exceed P5,000 or an amount equivalent to P100, was substantially complied.

### ***Compliance to Full Disclosure of Local Budget, Finances, Bid Opportunities and Public Offerings***

Financial Statements, Local Budget, Bid Opportunities, Public Offerings, Statement of collections and Expenses of the Provincial Government were fully disclosed with the maintenance of the Province's website which can be fully accessed in [www.zanorte.gov.ph](http://www.zanorte.gov.ph) in addition to the posting of these documents in the provincial complex premises.

### ***Compliance with Tax Laws***

The Provincial Government has substantially complied with existing tax laws, rules and regulations. Amounts unremitted at year-end as reflected in Due to BIR account were remitted during the first quarter of the succeeding year. The table shows the total taxes withheld and remitted from individual compensation and suppliers as of December 31, 2016:

<b>Funds</b>	<b>Withheld</b>	<b>Remitted</b>	<b>Balance</b>
General Fund	P 366,894,839.26	P 123,467,261.38	P 243,427,577.88
SEF	1,571,321.52	574,994.91	996,326.61
Trust Fund	3,814,622.02	1,069,120.49	2,745,501.53
<b>Total</b>	<b>P 372,280,782.80</b>	<b>P 125,111,376.78</b>	<b>P 247,169,406.02</b>

### ***Financial Assistance, Contributions and Other Disbursement of LGUs to Leagues of Provinces, Cities, Municipalities, Barangays and Federation of Leagues***

In CY 2016, the Provincial Government had remitted a total of P430,000 to the following leagues for the purposes indicated below:

<b>Check</b>		<b>Name of League</b>	<b>Purpose</b>	<b>Amount</b>
<b>Number</b>	<b>Date</b>			
1887903	1/26/16	Union of Local Authorities of the Philippines (ULAP)	Annual Membership Due-CY 2016	P 30,000.00
1887905	1/26/16	League of Provinces of the Philippines, Inc.	Annual Membership Due-CY 2016	250,000.00
1889434	3/03/16	League of Vice Governor of the Philippines	Annual Membership Due-CY 2016	150,000.00
<b>TOTAL</b>				<b>P430,000.00</b>

**SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END**

The reported audit suspensions, disallowances and charges of the LGU as of December 31, 2016 were as follows:

	Beginning Balance (as of January 1, 2016)	This Period January to December, 2016		Ending Balance (as of December 31, 2016)
		NS/ND/NC	NSSDC	
Suspensions	P 686,985.93	P 1,947,710.84	P 1,240,757.84	P 1,393,938.93
Disallowances	107,902.00	7,862,500.00	-	7,970,402.00
Charges	-	-	-	-
<b>Total</b>	<b>P 794,887.93</b>	<b>P 9,810,210.84</b>	<b>P 1,240,757.84</b>	<b>P 9,364,340.93</b>

The balance of the audit disallowance of P107,902.00 was the subject of appeal from the aggrieved party and is now pending with the COA Regional Office No. IX.

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

All the 16 prior year's audit recommendations are partially implemented. The details of these implementation are summarized in the Part III of this report.