

EXECUTIVE SUMMARY

1. Introduction

Divilacan became a regular municipality of the Province of Isabela on June 21, 1969 by virtue of Republic Act No. 5776. It nestles between the Pacific Ocean and the Sierra Madre ranges. It was carved from the municipalities of Ilagan, Tumauini and Palanan. Fishing and farming are the main source of livelihood of the local residents. Other products were corn, coconut and root crops.

The municipality is classified as 2nd class municipality composed of twelve (12) barangays. Total population is 5,200.

2. Financial Highlights

For CY 2016, the financial condition and results of operations sources and utilization of funds of the Municipality are as follows:

	<u>2016</u>	<u>2015</u>	<u>Inc.(Dec.)</u>	<u>%</u>
Assets	P240,923,192.93	P201,276,215.49	P4,784,100.27	2.44
Liabilities	69,370,077.61	62,422,154.58	1,213,469.11	1.99
Government				
Equity	171,553,115.32	138,854,060.91	3,570,631.16	2.64
Income	150,544,915.46	128,629,999.31	16,526,069.57	14.75
Expenses	117,816,221.95	124,533,572.27	23,515,630.53	23.28
Net Income	32,728,693.51	4,096,427.04	(6,989,560.96)	(63.05)
Current Year				
Appropriation	139,317,848.00	127,704,545.35	16,345,216.17	14.68
Continuing				
Appropriation	41,514,679.47	31,168,513.98	4,736,061.17	17.92
Current Year				
Obligations	108,441,312.92	101,992,012.90	9,621,997.03	10.42
Continuing				
Obligations	8,685,144.46	14,454,219.58	(1,205,977.36)	(7.70)

During the calendar year 2016, the total appropriations amounted to P180,832,527.47 of which the amount of P117,126,457.38 was obligated leaving a balance of P63,706,070.09 of which the amount of P41,514,679.47 is a continuing appropriation and the remaining balance of P8,685,144.46 is unexpended balance available for appropriation in the ensuring year.

Total income of P150.5 million collected during the year was sourced from local taxes, internal revenue allotment, permits and licenses, service income, business income and other income.

3. Scope of the Audit

Financial and compliance audit were conducted on the accounts and operations of the Municipality of Divilacan, Isabela for the calendar year 2016. The audit objectives were to ascertain the propriety of the disbursements, the reliability of the financial reports, the adequacy of accounting records, compliance with laws, rules and regulations as well as adherence to prescribed policies and procedures. Likewise, the audit was conducted to determine whether plans, programs, activities and projects for the year were attained at an efficient, economic and effective manner.

4. Auditor's Opinion on the Financial Statement

The auditor issued a Qualified Opinion on the fairness of presentation of the financial statements of the Municipality of Divilacan, Isabela as of December 31, 2016 due to the non-conduct of physical inventory its Property, Plant and Equipment with a net carrying amount of P115,699,092.82. The inadequacy of records did not permit the application of adequate alternative procedures to determine the validity, existence and correctness of the PPE.

5. Significant Observations and Recommendations

The audit observations and recommendations were discussed with concerned officials and employees in an exit conference held on April 5, 2016 and their comments were incorporated in the report, where appropriate. Among the other significant observations and recommendations are as follows:

- 1. The LGU did not satisfactorily utilize its 20% Economic Development Fund (EDF) and its Continuing Appropriations for CY 2016, thus, the development of the Municipality is limited, in violation of with Joint DBM-DILG Memorandum Circular No. 2011-01 dated April 13, 2011.**

We recommended that the Local Chief Executive ensure that the 20% EDF and Continuing Appropriations are optimally utilized for its intended purposes for the development of the municipality and its constituents.

- 2. Sixty three stale checks of P276,617.35 remained outstanding and unadjusted thereby affecting the reliability of the Cash in Bank account balance as of year-end.**

We recommended that the Municipal Treasurer cancel the stale checks and the Municipal Accountant take up journal entry or entries to revert the corresponding amount back to Cash in Bank account and to proper liability accounts.

3. **The Municipality of Divilacan has allowed its regular employees to receive net take home pay of below P3,500.00 per month in violation of Section 52 of the General Provisions of Republic Act (RA) No. 10717 or the General Appropriations Act (GAA) of 2016.**

We recommended that the management strictly follow the provisions of the 2017 GAA on Authorized Deductions by screening the loan application of its employees so that their monthly net take home pay will not be reduced to an amount lower than Four thousand pesos (P4,000.00), after all authorized deductions.

4. **The validity, existence and correctness of the Property, Plant and Equipment (PPE) account costing of P178,617,244.58 as of December 31, 2016 could not be ascertained due to the failure of the LGU to conduct annual physical inventory of properties and to maintain property ledger cards and the non-reconciliation of property records by the Municipal Accountant's Office and General Services Office which is contrary to existing law, rules and regulations.**

We recommended that management reconstitute the Inventory Committee to regularly conduct a complete physical inventory of the municipality's properties to establish the existence of the PPE. It is further required that timetable/deadlines set by management be strictly followed and that required reports be submitted pursuant to COA Circular No. 92-386.

6. Summary of Audit Suspensions, Disallowances and Charges

	Beginning Balance Dec. 31, 2015	Issuances During the Year	Settlements During the Year	Ending Balance Dec. 31, 2016
Audit Disallowance	P1,762,528.85	P 0.00	P 171,093.92	P1,591,434.93
Audit Charge				
Audit Suspension				

7. Gender and Development (GAD)

GAD was mainstreamed in various programs, projects and activities of the LGU.

8. Local Disaster Risk Reduction Management Fund (LDRRMF)

Unused portion of the LDRRMF was transferred to trust fund.

9. Status of Prior Years' Audit Recommendation

Out of the nine (9) audit recommendations embodied in the CY 2015 Annual Audit Report, four (4) were implemented, four (4) were partially implemented and one (1) was not implemented. The partially implemented and unimplemented audit recommendations were reiterated in Part II of this report.