

EXECUTIVE SUMMARY

INTRODUCTION

The Municipality of Labason, Zamboanga del Norte is one of the 25 Municipalities of the Province. It is one of the earliest created town of the Province. Located in the 3rd congressional district of the Province, and was created by virtue of Executive Order No. 079 signed by His Excellency President Manuel Roxas on August 12, 1947 and was inaugurated on January 24, 1948. From its original creation, the Municipality was reduced to its present size upon creation of the Municipalities of Gutalac in 1979 and later Kalawit. Labason, with twenty (20) component Barangays is classified as 3rd class Municipality by the Department of Finance.

Scope of Audit

A comprehensive audit was conducted on the accounts and operations of the Municipality of Labason, Province of Zamboanga del Norte 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, and analysis of accounts, and such other procedures considered necessary.

Specifically, the objective of the audit is to ascertain the propriety of the financial transactions and compliance of the agency to prescribed laws, rules and regulations. It was also made to ascertain the accuracy of the financial records and reports as well as 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 CY 2016, the following audit areas/accounts were looked into:

1. Property, Plant and Equipment Account (PPE)
2. Insurance
3. Projects, Programs and Activities
4. Internal Control
5. Special Education Fund

FINANCIAL HIGHLIGHTS

The financial condition and results of operation of the Agency as December 31, 2016 are summarized as follows:

	<u>2016</u>
Assets	P 268,194,465.08

Liabilities	92,626,506.05
Net Assets/Equity	175,567,959.03
Revenue	111,467,017.31
Current Operating Expenses	101,048,618.10
Transfer, Assistance and Subsidy From	47,226,883.04
Transfer, Assistance and Subsidy To	1,371,051.55
Surplus	56,274,230.70

The LGU's appropriation and Obligations for the year were as follows:

Description	2016
Current Legislative	
Appropriations-GF	
Personal Services	49,148,648.39
Maintenance & Other Operating Expenses	40,004,645.61
Capital Outlay	22,338,136.00
	111,491,430.00
Appropriation - SEF	
Personal Services	-
Maintenance & Other Operating Expenses	740,000.00
Capital Outlay	88,000.00
	828,000.00
TOTAL – Current LA	112,319,430.00
Continuing Legislative	
Appropriations-GF	
Maintenance & Other Operating Expenses	4,281,649.66
Capital Outlay	9,206,643.02
	13,488,292.68
Continuing Legislative	
Appropriations-SEF	
Personal Services	-
Maintenance & Other Operating Expenses	620,322.12
Capital Outlay	43,152.00
	663,474.12

TOTAL – Continuing LA	14,151,766.80
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Operational Highlights

In line with the province's thrust for development, the following were some of the major accomplishments duly validated by the auditor on a selective basis:

	Project/Program/ Activity Name	Location	Total Cost (Php)	Date Started	Target Comple tion Date	Project Status	Source of Fund s	Remarks
						% of Comple tion		
1	CONCRETE PAVING OF LOPOC-LAWAGAN FMR (BULANGAN SEC.)	LOPOC	1,350,000.00	9/24/15	11/24/15	60.00	LGSF	ON-GOING
2	CONCRETE PAVING OF LOPOC-LAWAGAN FMR (LAWAGAN SEC.)	LAWAGAN	1,350,000.00	9/24/15	11/24/15	75.00	LGSF	COMPLETED
3	CONSTRUCTION OF DRAINAGE CANAL ALONG JUAN LUNA ST.	ANTONINO	533,200.00	9/28/15	12/28/15	90.00	BUB	ON-GOING
4	CONSTRUCTION OF DRAINAGE CANAL ALONG SIKATUNA ST.	IMELDA	1,072,200.00	10/15/15	1/15/16	70.00	BUB	ON-GOING
5	CONSTRUCTION OF DRAINAGE CANAL ALONG TAMBLOT ST.	LOPOC	881,200.00	9/28/15	12/13/15	65.00	BUB	ON-GOING
6	CONSTRUCTION OF FLOOD CONTROL (PHASE-II)	GIL SANCHEZ	548,471.29	9/28/15	11/28/15	50.17	BUB	ON-GOING
7	CONCRETE PAVING OF MANUEL L QUEZON ST.	GIL SANCHEZ /LOPOC	1,210,000.00	9/24/15	11/24/15	90.00	BUB	ON-GOING
8	CONCRETE PAVING OF SIKATUNA ST.	IMELDA	615,000.00	9/24/15	11/8/15		BUB	EMPLEMEN TATION / SUSPENDED
9	CONCRETE PAVING OF OSUKAN CEMENTERY ROAD	OSUKAN	1,051,805.42	9/24/15	11/24/15	75.00	BUB	ON-GOING

10	CONCRETE PAVING OF PATAWAG-PIANON PR (PATAWAG SEC.)	PATAWAG	3,000,000.00	8/20/15	11/20/15	40.00	PF	ON-GOING
11	CONCRETE PAVING OF LA UNION-LAPATAN PR (LA UNION SEC.)	LA UNION	3,000,000.00	8/20/15	11/20/15	60.00	PF	ON-GOING
12	IMPROVEMENT OF COVERED COURT	KIPIT	3,000,000.00	8/20/15	9/30/15	100.00	PF	COMPLETED
13	CONSTRUCTION OF COVERED COURT	LAPATAN	2,100,000.00	8/20/15	12/30/15	65.00	PF	ON-GOING
14	REPAIR/REHAB OF IMMACULADA-NEW SALVACION SPILLWAY	NEW SALVACION	206,460.47	8/20/15	9/30/15	100.00	PF	COMPLETED
15	REPAIR/REHAB OF DAMAGED SEAWALL	ANTONINO	1,363,272.54	8/20/15	11/30/15		BUB	-

INDEPENDENT AUDITOR'S REPORT

We rendered an unmodified opinion with emphasis of matter on the fairness of presentation of financial statements of the LGU as of December 31, 2016.

An unqualified opinion on the financial statements was issued since the findings are not material enough to affect the representation of the management as to the fairness in presentation and disclosure of the financial statements, with emphasis on a matter regarding the completion and correction on the Report of Physical Count of Property, Plant and Equipment.

SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

Presented below are the significant audit observations and recommendations noted in the course of audit:

1. The reliability of Property, Plant and Equipment account could not be ascertained due to (a) Unreconciled fixed asset records; (b) Non – Maintenance of Property Ledger Card/Property Card; (c) Unassigned/Improper assignment of fixed assets;

(d) Lack of information in the Fixed Asset Records and (e) No disposal of unserviceable properties.

We recommend that the Municipality enhance its compliance with policies and procedures in:

- a. Completing the actual physical count and the RPCPPE and reconcile the established differences to have accurate Fixed Asset records and reports for the Municipality for which it is held accountable and provide adequate disclosures to guide the users of information;**
- b. Maintaining proper Fixed Asset records for all Municipality's fixed assets;**
- c. Assigning Fixed Asset to end user or the least the head of office having custody of the assets to facilitate easy monitoring for inventory purposes and ensure that the same are being kept and safeguarded by responsible personnel**
- d. Updating information in the Fixed Asset records;**
- e. Coordinating with different personnel/offices of the Municipality in order to gather information as to the amount of acquisition cost and the date of acquisition to be able to recognized depreciation expense.**

If no information is available, since in the actual physical count of these assets they are classified as serviceable, proper appraisal on the remaining useful life of the asset should be done and the corresponding depreciation expense shall be computed based on the book – value as presented in the financial statements.

f. Disposing unserviceable properties.

2. Function, program, project and activity in the Annual Budget, expenditures under Maintenance and Other Operating Expenses and unutilized allotment in the Special Education Fund for CY 2016 were not aligned with Section 272 of Republic Act 7160 and Section 1 of RA 5447.

We recommend that the LSB should refrain from providing non-priority expenditures in the SEF budget, especially for those that are part of the regular activities of schools, and/or the DepEd. Instead, it should be allocate SEF funds for the construction and repair of school buildings; facilities and equipment; education research; acquisition of books and periodicals; and sports development. Also, the LSB should monitor the available SEF in order to implement the programs/projects/activities in a

timely manner, taking into consideration the objectives set forth in RA 7160 and RA 5447.

3. Municipality deposited some funds and maintained depository bank accounts with Philippine National Bank (PNB) contrary to Sections 5.2 and 5.3 of the Department of Finance (DOF) Department Circular (DC) No. 001-2015 dated June 1, 2015.

We recommend that management should close the bank account maintained with Philippine National Bank and transfer the amount to Government Financial Institutions with universal bank license and a CAMELS rating of at least 3 in accordance with Section 5.2 of Department of Finance (DOF) Department Circular (DC) No. 001-2015 dated June 1, 2015.

4. Insurable properties of the Municipality were not insured for CY 2016, under the General Insurance Fund of the GSIS in accordance with Section 489 of the Government Accounting and Auditing Manual Volume I and COA Circular No. 92-390 dated November 17, 1992, thus depriving the agency to recover the cost of the assets in case of occurrence of fire or other contingent event.

We recommend that the management of the Municipality should insure all insurable assets with the GSIS to cover for the cost of the properties in case of loss due to fire and other contingent event, and to comply with Section 489 of the Government Accounting and Auditing Manual Volume I and COA Circular No. 92-390 dated November 17, 1992 . Furthermore, the Municipality should include in the municipal budget the necessary funds for the payment of insurance premiums for the properties for CY 2018 onwards.

5. Monthly Report of Accountability for Accountable Forms (RAAF) is not prepared and submitted regularly as required under Sec. 98 of GAAM Volume I and Sec. 30 of the New Government Accounting System.

The Municipal Treasurer should comply with the preparation and submission of MRAAF. Collectors should be required to submit MRAAF individually which is the basis of the Municipal Treasurer to prepare the consolidated MRAAF. And no accountable forms should be issued to a collector if accountable forms in his custody are not liquidated or reported as collection with the preparation of the corresponding Report of Collections and Deposits (RCD).

6. Reports on (1) projects/programs/activities being implemented and are to be implemented by the Municipality; (2) awarded infrastructure projects; (3) appropriate signboards and/or public notices are already posted in the project site; were not submitted during the year, which is not in compliance with the provisions of COA Circular No. 2013-004 dated January 30, 2013.

1. **Coordination must be established between the Bids and Awards Committee, Municipal Engineering, Municipal Budget Office and the Municipal Planning and Development Office regarding the preparation of the report on the PPAs implemented and to be implemented by the Municipality.**
2. **Reconciliation should be done of the records maintained by the BAC, Municipal Engineering, Municipal Budget Office and the MPDO in the preparation of PPAs report before submission to COA for audit validation.**
3. **Require the concerned official/Municipal Engineering Office to submit at the beginning of the year in accordance with the provision of 2.1 of COA Circular No. 2013-004 dated January 30, 2013; and**
4. **Submit updated PPA report if there are corrections, revisions or changes to the projects to be implemented for validation and monitoring.**

Compliance with Tax Laws

The Municipality of Labason had generally complied with tax regulations.

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

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

	Beginning Balance 01.01.2016	This Period January 1, 2016 to December 31, 2016		Ending Balance 12.31.2016
		NS/ND/NC	NSSSDC	
Notice of Suspension	-	-	-	-
Notice of Disallowance	1,308,385.15	-	-	1,308,385.15
Notice of Charge	-	-	-	-
Total	1,308,385.15	-	-	1,308,385.15

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the six (6) audit recommendations in the prior years' Annual Audit Reports, three (3) were fully implemented, and three (3) were partially implemented.