

EXECUTIVE SUMMARY

A. INTRODUCTION

Upon the recommendation of the Secretary of the Department of Interior and Local Government and pursuant to the provisions of Section 68 of the Revised Administrative Code and by virtue of Executive Order No. 402 signed by the President of the Philippines, Carlos P. Garcia, the Municipality of Mutia, Zamboanga del Norte was created on the 22nd day of July, 1960.

The Local Government of Mutia, Zamboanga del Norte is envisioned to be a productive hinterland community and renowned tourist destination. It proudly stands among the modern communities of Zamboanga del Norte through intensified agriculture, ecological balanced with empowered citizenry living in a serene and progressive society which diligently participates in responsible governance.

Predominantly, the inhabitants of the municipality are engaged in farming. Most of the families are dependent on the land they toil for their survival. The agricultural land area of 6,250 hectares is devoted to crop production. The biggest share of the agricultural land is utilized by the coconut planters while 620 hectares are used to plant corn which is the second highest crop production in the municipality.

Background

1. Legal Basis: Executive Order No. 402
Date: July 22, 1960

2. Organizational Set-up

Key Officials:

Municipal Mayor	Hon. Arthur C. Tenorio
Municipal Vice-Mayor	Hon. Jenito M. Bohol
Municipal Treasurer- ICO	Ms. Vilma B. Dominguez
Municipal Accountant	Mr. Mervin B. Reluya
MPDC and OIC Budget Officer	Mr. Felix C. Bajamunde
Municipal Assessor	Mr. Noli T. Gandamon, REA
Municipal Health Officer-DTTB	Dr. Gay P. Sabandon
Municipal Social Welfare Dev't. Officer	Ms. Fevilla J. Ramos
Municipal Engineer	Engr. Mario A. Natcher
Municipal Agriculture Officer	Mr. Crisologo J. Abello
Municipal Civil Registrar	Mr. Virgilio B. Orquez

At present, the LGU is implementing different programs, projects and activities in fulfillment of its mandate, among which are the following:

1. Barangay Electrification
2. Development/Improvement of Water Supply System
3. Implementation of livelihood program
4. Rehabilitation of local roads and bridges
5. Improvement of Municipal gymnasium
6. Concreting of FMR at barangay Alvenda

AUDIT METHODOLOGY

The Commission has been implementing 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 (IRBBA) Methodology, was applied in the audit of the accounts and operations of the LGU.

SCOPE OF AUDIT

A comprehensive audit was conducted on the accounts and operations of the Municipality of Mutia, Province of Zamboanga del Norte for CY 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 thrusts of the Local Government Sector for CY 2016, the following audit areas/accounts were looked into:

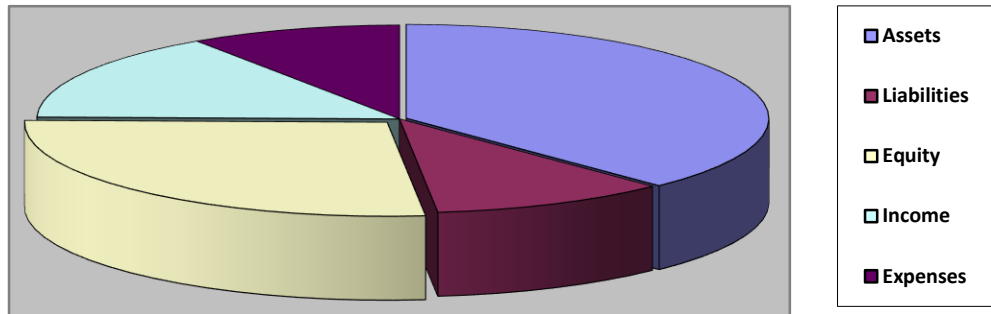
1. Property, Plant and Equipment
2. 20% Development Fund
3. Fund Transfers from National Government Agencies (NGAs) to LGU
4. Procurement
5. LDRRM Funds
6. Environmental Compliance (Ecological Solid Waste Management, National Greening Program)
7. Gender and Development
8. Special Education Fund (SEF)

9. Compliance with Tax Laws

However, due to some limitations and time constraints, the audit areas identified in the Audit Instructions for CY 2016 audit as mandatory audit areas could not be evaluated.

B. FINANCIAL HIGHLIGHTS

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



Account Name	CY 2016	CY 2015	Increase/Decrease
Assets	158,001,733.55	146,226,332.67	11,775,400.88
Liabilities	19,250,067.97	41,588,540.54	(22,338,472.57)
Equity	138,751,665.58	104,637,882.13	34,113,783.45
Income	81,988,466.57	58,976,169.55	23,012,297.02
Expenses	40,487,868.36	43,745,560.34	(3,257,691.98)

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

Particulars	Appropriations		Obligations	
	2016	2015	2016	2015
A. Current Legislative Appropriations				
1. General Fund				
Personal Services	23,457,427.00	22,026,627.38	22,371,625.84	21,567,047.19
MOOE	26,242,256.42	25,905,624.25	21,193,195.32	20,983,529.80
Capital Outlay	4,384,000.00	1,512,000.00	3,394,219.66	590,964.83
Financial Expenses	-	-	-	9,175.28
Sub-total	54,083,683.42	49,444,251.63	46,959,040.82	43,150,717.10
2. Special Education Fund				
MOOE	226,000.00	175,000.00	126,988.50	126,988.50
Sub-total	226,000.00	175,000.00	126,988.50	136,163.78
Total Current Legislative Appropriations	54,309,683.42	49,619,251.63	47,086,029.32	43,286,880.88
B. Continuing Legislative Appropriations				
1. General Fund				
MOOE	4,463,592.79	2,525,073.11	1,908,533.73	-
Capital Outlay	1,367,928.42	480,000.00	312,449.18	-
Sub-total	5,831,521.21	3,005,073.11	2,220,982.91	-
2. Special Education Fund				
MOOE	-	-	-	-
Capital Outlay	-	-	-	-
Sub-total	-	-	-	-
Total Continuing Legislative Appropriations	5,831,521.21	3,005,073.11	2,220,982.91	-
Grand Total	60,141,204.63	52,624,324.74	49,307,012.23	43,286,880.88

C. INDEPENDENT AUDITOR'S REPORT

We rendered a qualified opinion on the fairness of presentation of financial statements of the LGU as of December 31, 2016 because of (1) the existence, accuracy and validity of the balances of the Inventory and Property, Plant and Equipment accounts as of December 31, 2016 totaling P4,087,207.71 and P120,626,672.29, respectively, could not be ascertained due to failure of the municipality to conduct physical count of inventory and physical count of property, plant and equipment contrary to Section 124 of the Manual on the New Government Accounting System for Local Government Units and Section C.3, Chapter V of the

Manual on the Property Custodianship, (2) the existence and correctness of the balance of account Road Networks amounting to P54,15,813.20 as of December 31, 2016 is doubtful due to the failure to conduct physical count of its road networks and maintain the required records enumerated under COA Circular No. 2015-008, and (3) the existence of a negative balance due to over remittance of taxes withheld amounting to P90,874.98 in the Due to BIR account for goods and services in the Trust Fund and P17,029.48 for compensation in the General Fund were noted, rendering the affected accounts inaccurate.

D. SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

In addition to the audit observations which were considered in rendering a qualified opinion, below are the other significant audit observations with audit recommendations, which details are discussed in Part II of this Report.

- 1. The existence, accuracy and validity of the balances of the Inventory and Property, Plant and Equipment accounts as of December 31, 2016 totaling P4,087,207.71 and P120,626,672.29, respectively, could not be ascertained due to failure of the municipality to conduct physical count of inventory and physical count of property, plant and equipment contrary to Section 124 of the Manual on the New Government Accounting System for Local Government Units and Section C.3, Chapter V of the Manual on the Property Custodianship.**

We reiterated the following recommendations that management should adopt:

- The Municipal Mayor must require the Inventory Committee and Accounting Unit to conduct a physical count of inventory items and properties of the Municipality, as well as the preparation of the RPCI and RPCPPE, respectively. The report shall be prepared every year and shall be certified correct by the Inventory Committee, attested by the Auditor and approved by the Head of the Agency.
 - Reconciliation of the Inventory Committee's records with that of the accounting department should also be made to address discrepancies that arise in the regular course of the agency's operations, and in accordance with Section C.3, Chapter V of the Manual on Property Custodianship.
 - Unserviceable properties must be recorded in the Inventory and Inspection Report for Unserviceable Properties as the basis in dropping out the said properties.
- 2. The existence and correctness of the balance of account Road Networks amounting to P54,175,813.20 as of December 31, 2016, was doubtful due to the failure to conduct physical count of its road networks and maintain the required records enumerated under COA Circular No. 2015-008.**

We recommended that management require the Inventory Committee to conduct physical count of its road networks in order to ascertain the existence of the balance of the account Road Networks.

Moreover, direct the Municipal Accountant and the General Services Officer/Municipal Treasurer to maintain the Local Road Network Ledger Card for every road network and the Local Road Network Property Card for all roads and its components, respectively. Likewise, a report on Local Road Network is to be prepared by the General Services Officer at the end of accounting period as well as the Local Road Inventory and Road Map.

- 3. Properties valued at P34,045,879.32 of the municipality, except for the Transportation Equipment amounting to P7,087,338.44, were not covered with the appropriate property insurance with the Government Service Insurance System (GSIS) as required in COA Circular No. 92-390 dated November 17, 1992, thus leaving its properties at risk of total loss without right of indemnification.**

We recommended that the Municipal Mayor direct the Municipal Property Officer to facilitate the submission of the updated list of inventory of insurable properties with the GSIS so that the necessary insurance coverage for all the assets can be applied with the GSIS General Insurance Fund.

- 4. Of the total appropriations of P11,843,238.00 for the 20% Development Fund, only P8,728,216.96 or 73.70% was utilized by the municipality, contrary to Section 5 of DILG-DBM Joint memorandum Circular No. 2011-1 dated April 13, 2011, thus depriving intended beneficiaries of the maximum benefits that could be derived therefrom.**

We recommended that the Municipal Mayor require the Municipal Planning and Development Council to maximize the utilization of the 20% development Fund so that all its programmed development projects could be implemented immediately to ensure that intended beneficiaries avail of the maximum benefits that will be derived therefrom.

- 5. Fuel consumption of the Municipality totaling P4,064,012.71 of which 66.62% or P2,707,452.70 were granted in prior years remained unaccounted at year end due to non-implementation of the prescribed rules and regulation governing the use of government motor transportation. The non-submission of reports relative to fuel consumption contravenes items B.2 to B.4 of COA Circular No. 77-61 dated September 26, 1977.**

We recommended that management:

- Require the official drivers to prepare and submit duly accomplished and serially numbered Driver's Trip Tickets for each trip for control purposes. This document would show the details of the actual places visited, actual distance travelled and corresponding quantity of fuel consumed. A summary record of travel is prepared for every vehicle with complete supporting documents.
- Require the General Services Office to prepare the Monthly Report of Official Travels and Monthly Fuel Consumption Report for monitoring and controlling purposes, and to submit these reports to the Auditor for verification and evaluation of the reasonableness of fuel consumption in a specific month.
- Closely monitor and control fuel consumption, and enjoin compliance with the above stated regulations in order to properly account for the utilization of gasoline, oil and lubricants and ensure reasonable fuel consumption for the legitimate requirements of the municipality.
- Require the supplier of fuel to indicate the prevailing price at the time of withdrawal to facilitate determination of corresponding deductions as stipulated in the purchase order.

6. Six (6) Bottom-Up Budgeting Projects (BUB) amounting to P 16,666,666.66 for CY 2016 remained unimplemented by the municipality, thus, depriving its constituents the beneficial effects of these projects.

Require coordination between the Planning, Engineering, Treasury, Accounting, DSWD, DILG, and other concerned divisions/offices to fast track the implementation of BUB projects especially so that these projects are intended to provide benefits to the municipality's grassroots population.

Require the BUB focal person to regularly monitor the status of proposed BUB projects as to funding and implementation.

7. Insufficient appropriation was provided for Senior Citizens and Persons with Disabilities in the amount of P7,200.00 only and no appropriation for the Implementation of the programs of the Local Councils for the Protection of Children for the calendar year 2016 as required under RA 9442 amending RA 7277 and Department of Interior and Local Government (DILG) Memorandum Circular 2014-59 and Republic Act (RA) 9344, respectively, thus depriving intended beneficiaries of the benefits due to them.

We recommend that in the succeeding fiscal years, the municipality shall provide sufficient appropriation in the Annual Budget for Senior Citizens and Persons with Disabilities and for Implementation of the programs of the Local Councils for the Protection of Children as required under RA 9344, DILG Memorandum Circular 2014-59 and RA 9442 amending RA 7277.

- 8. Certain requirement, rules and regulations on the accounting and reporting of the LDRRMF were not properly observed contrary to COA Circular No. 2012-002 thus, depriving the stakeholders updated information on the sources, applications and the balance of the LDRRMF which are necessary especially in any eventuality.**

We recommended that management should;

- a. Require the accountant to prepare the monthly Report on the Receipt and Utilization of Disaster Risk Reduction and Management (DRRM) fund and submit to the COA Auditor thru the Local Disaster Risk Reduction and Management Officer (LDRRMO) every 15th day of the month.
 - b. LDRRM Officers must strictly comply with the accounting and reporting requirements stipulated in RA 10121 and COA Circular No. 2012-002, dated September 12, 2012, to ensure that the financial information are appropriately taken up in the books and properly presented in the financial statements with adequate disclosures.
- 9. The Municipality did not observe proper segregation and disposal of solid waste which was not in compliance with Republic Act (RA) 9003 or the Ecological Management Waste Program thus may have a consequential impact on public health and environment.**

We recommended that the Municipality ensure strict compliance with the provisions of Republic Act 9003 on proper segregation, collection, transport, storage, treatment and disposal of solid waste, ensure the implementation of segregation at source of solid waste, enforcement of “no segregation, no collection’ policy, creation of Materials Recovery Facility (MRF) in every barangay, and the development of disposal facility in the municipality.

- 10. Financial assistance to various barangays amounting to P383,200.00 were not covered with a Memorandum of Agreement and a resolution from the Sangguniang Bayan authorizing the Local Chief Executive to enter into agreement contrary to Item 4.1 of COA Circular No. 94-013 dated December 13, 1994, thus proper accounting and reporting of the utilization of funds cannot be ascertained.**

We recommended that a Memorandum of Agreement should be entered into by the Municipal Mayor and recipient agency in all releases of cash assistance whether barangays, schools and other government agencies wherein requirements for utilization, reporting and accounting will be laid down in future transfer transactions. The Municipal Accountant should also require the same in processing the transactions.

- 11. The Bids and Awards Committee failed to prepare and post the approved Procurement Monitoring Report (PMR) to the GPPB, Annual Procurement Plan for Common-use Supplies and Equipment (APP-CSE) to the DBM Regional Office and prepare the Agency Procurement Compliance Performance Indicator (APCPI) contrary to Section 12.2 of the Revised IRR of RA 9184, DBM Circular Letter No. 2011-06A dated September 28, 2011 and GPPB Resolution No. 10-2012 dated June 1, 2012, respectively.**

We recommended that the Bids and Awards Committee prepare and submit the Procurement Monitoring Report for the 1st semester of CY 2017 to GPPB website on July 14, 2017; submit the CY 2018 Annual Procurement Plan-Common-use Supplies and Equipment to DBM on November 15, 2017 and prepare the APCPI for CY 2016 during the 1st quarter of CY 2017. The same shall be done on each ensuing semesters and years thereafter.

- 12. The Municipality's liquidation of the cash advances for the Supplemental Feeding Program was not in compliance with Administrative Order No. 08, series of 2012 the Omnibus guidelines on the implementation of the supplementary feeding program, hence the effectiveness of the outcome could not be determined. Likewise, disbursements were not supported with complete documentation, contrary to the provisions of COA Circular No. 94-013.**

We recommended that the Municipality must submit all documents including liquidation reports prepared and submitted by the MSWD accountable officer. And also, direct immediately the assigned AO to undertake the activities and disburse the funds without delay to conform with the provisions of COA Circular No. 94-13 and Omnibus guidelines on the implementation of the Supplemental Feeding Program.

Special Education Fund

- 13. Out of the P226,000.00 Annual Budget of the Special Education Fund (SEF) for CY 2016, P125,000.00, or 55% was appropriated for Scouting and Sports Development, which limit or reduced the funding for priority expenditures enumerated under Section 272 of Republic (RA) No. 7160, thus depriving the constituents of the benefits therefrom.**

We recommended that other basic services/ priority expenditures enumerated in Section 272 of the LGC should be considered in allocating SEF funds of so as not to deprive the constituents of the benefits from the said funds.

- 14. The existence of a negative balance due to over remittance of taxes withheld amounting to P90,874.98 in the Due to BIR account for goods and services in the Trust Fund and P17,029.48 for compensation in the General Fund were noted, rendering the affected accounts inaccurate.**

We recommended that management should:

- a. Require the Municipal Accountant to demand refund/return of the over remittances of the BIR Withheld Taxes from the suppliers/contractors and employees concerned or it shall be the personal liability of the officials/employees who caused the over remittance and for all the losses of government funds attributable to negligence in the application thereof.
- b. Require the Municipal Accountant to prepare the necessary adjustment in the books of those affected accounts and submit the corresponding copy/copies to the Commission on Audit for verification.
- c. Require the Municipal Accountant and the Municipal Treasurer to remit within the required period the taxes withheld on goods and services and compensation to avoid the misuse of said funds and the incurrence of unnecessary expenses in the form of interest and surcharges.

E. 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:

Audit Action	Balances January 1, 2016	Issuances during the Year	Settlement during the Year	Balance as of December 31, 2016
Notice of Suspension	-	-	-	-
Notice of Disallowance	-	-	-	-
Notice of Charge	-	-	-	-

This does not include disallowances, suspension and charges prior to the effectivity of COA Circular No. 2009-006 dated September 15, 2009.

F. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the twelve (12) audit recommendations in the 2015 Annual Audit Report, five (5) were fully implemented, four (4) were partially implemented and three (3) were not implemented. On the Prior Years' audit recommendations, One (1) was fully implemented, one (1) was partially implemented and two (2) were not implemented.