

Executive Summary

A. Introduction

In the year 1607, the Municipality of Masinloc was the first town organized in the Province of Zambales. It is a first-class municipality with a total land area of 33,150 hectares distributed among 13 barangays.

The administrative and other facility buildings are located at Barangay Inhol with an area of 8,700 square meters. Construction of the municipal building commenced in the year 2002 funded under the 20% Development Fund and fund transfer from the Provincial Government and continued the construction of the building in the year 2009 sourced from a Land Bank of the Philippines (LBP) loan. The building was occupied by the municipal officials and employees on January 15, 2014. Other facility buildings were constructed thereafter.

Through the leadership of Mayor Arsenia J. Lim and the support of Vice Mayor Pedro O. Enciso and the Sangguniang Bayan (SB) Members, and 13 department heads, the Municipality continued to deliver public services and constructed/improved facilities for the benefit of its constituents.

B. Financial Highlights

The following data summarize the financial position, financial performance, and sources and application of funds of the Municipality of Masinloc for calendar year 2019 with comparative figures for calendar year 2018:

	2019	2018	Increase/ (Decrease)
Financial Position			
Total Assets	₱1,488,626,492.15	₱1,431,981,802.14	₱ 56,644,690.01
Total Liabilities	₱ 350,683,761.69	₱ 416,013,525.40	(₱65,329,763.71)
Total Equity	₱1,137,942,730.46	₱1,015,968,276.74	₱121,974,453.72
Financial Performance			
Total Income	₱ 504,519,292.62	₱ 471,390,666.63	₱ 33,128,625.99
Total Expenses	₱ 407,840,299.06	₱ 328,423,311.35	₱ 79,416,987.71
Excess of Income over Expenses	₱ 96,678,993.56	₱ 142,967,355.28	(₱46,288,361.72)
Sources and Application of Funds-General Fund and Special Education Fund			
	Budget	Actual	Difference
Revenues/Receipts	₱ 664,952,523.91	₱ 592,042,175.15	₱ 72,910,348.76
Appropriations/Obligations	₱ 863,690,943.95	₱ 668,415,637.84	₱195,275,306.11
Surplus (Deficit)	(₱ 198,738,420.04)	(₱ 76,373,462.69)	(₱122,364,957.35)

C. Scope of Audit

The audit covered the financial transactions and operations of the Municipality of Masinloc for CY 2019 based on the audit thrust areas identified by the Local Government Sector (LGS), COA, Central Office as embodied in Unnumbered COA Memorandum dated July 3, 2019. The audit included the examination of selected accounts and transactions on a sampling basis, employing various audit procedures and techniques such as analysis of accounts and review of the financial statements in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) by the Commission on Audit per COA Resolution No. 2018-011 dated February 1, 2018. The exceptions noted in the audit are discussed in detail in Part II of the report. The objectives of the audit were to: (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

D. Independent Auditor's Report

We rendered a qualified opinion on the fairness of presentation of the financial statements due to the (a) erroneous classification of two unfinished infrastructure projects either as Other Structures or outright expenses, inconsistent with IPSAS 1 and 17, which subsequently understated the Construction in Progress and Equity accounts by ₱12,002,106.57 and ₱7,181,514.57, respectively. Inversely, Other Structures account was overstated by ₱4,820,592.00, as discussed in Observation No. 1; and (b) failure to capitalize borrowing costs incurred on loans amounting to ₱4,337,724.21 contrary to IPSAS 5, which understated the Property, Plant and Equipment and Government Equity by that amount as noted in Observation No. 2.

In view of the foregoing, we recommended that management undertake the following courses of action:

On the unrecognized Construction in Progress Account

- Adjust the erroneous entries by debiting Construction in Progress for ₱12,002,106.57 and crediting Other Structures and Government Equity in the amount of ₱4,820,592.00 and ₱7,181,514.57, respectively;

On the non-capitalization of borrowing costs

- Instruct the Municipal Accountant to draw adjusting journal entries to capitalize the borrowing costs incurred for the two projects still in progress by debiting Construction in Progress-Infrastructure Assets and Construction in Progress-Buildings and Other Structures in the amount of ₱3,620,605.56 and ₱717,118.65, respectively, and crediting Prior Period Adjustment for ₱4,337,724.21.

E. Other Significant Findings and Recommendations

The other significant observations and recommendations that need immediate action of management are enumerated below:

1. The Municipality failed to adhere to the proper recording of the fund transfers received from the different national government agencies for the implementation of various programs, projects and activities contrary to Sections 94, 95 and 104 of the Manual on the New Government Accounting System (NGAS), Section 4.9 of COA Circular No. 94-013 dated December 13, 1994, and Section 4 (6) of P.D. No. 1445. (**Observation No. 3**)

We recommended that management direct/instruct:

- a) the Municipal Accountant to (i) transfer the financial assistance from various NGAs from the General Fund and Special Education Fund to the Trust Fund books in accordance with existing accounting policy; (ii) trace the records/documents relative to the unaccounted balances, reconcile the same, and remit the correct balance to the source agencies; (iii) coordinate with the Municipal Treasurer for the return of unused funds to the source agencies (SAs) or to the National Treasury, as the case may be; and
- b) the Municipal Treasurer to draw a check for the remittance of unutilized amount of all completed projects including trust collections for Ante-Mortem and Slaughterhouse Fees after proper reconciliation/analysis done by the Accounting Office.

2. The Municipality failed anew to submit paid disbursement vouchers, official receipts and attendant documents, such as contracts and other required accounting and financial reports within the prescribed period; thus, the accuracy and completeness of the recorded transactions could not be ascertained which eventually hampered the timely conduct of audit and communication to management of any deficiencies and/or observations that may be noted contrary to COA Circular Nos. 2009-001 and 006 dated February 12 and September 15, 2009, respectively, and Section 122 of P.D. No. 1445. (**Observation No. 6**)

We recommended that management (a) direct the Municipal Accountant and the Municipal Treasurer to immediately transmit the unsubmitted disbursement vouchers; and (b) strictly adhere to the prescribed timeframes on the rendition of accounts and preparation/submittal of financial reports pursuant to COA Circular No. 2009-006 dated September 15, 2009. Otherwise, we shall be constrained to enforce the provision of Section 122 of P.D. No. 1445 on the withholding of salaries of all Municipal Officials deemed responsible for late/non-reporting of agency accounts.

3. The Municipality utilized a sum of ₱5,387,880.26 under the 20% Development Fund for projects which were not among those mentioned explicitly in DILG-DBM Joint Memorandum Circular (JMC) No. 2017-1 dated February 22, 2017. With minimal allocation of fund for environmental management projects, the Municipality was unable to

attain optimum enjoyment of desired socio-economic development and environmental management outcomes. Moreover, for its failure to adhere to the requirements on posting of relevant information of its programs, projects, and activities, the people were deprived of their right to information on matter of public concern contrary to COA Circular No. 2013-004 dated January 30, 2013. (*Observation No. 7*)

We recommended that management (a) prepare an Annual Investment Plan (AIP) that would ensure the use of the 20% of IRA exclusively for projects that are mentioned explicitly in DILG-DBM JMC No. 2017-1 dated February 22, 2017; (b) instruct the Municipal Planning and Development Coordinator (MPDC) to make sure that the funds are properly allocated to development projects that will contribute to the attainment of both the desirable socio-economic and environmental management outcomes; (c) revert back the funds appropriated under the “LGU counterpart for BUB project” to the General Fund in order to make it available for other activities of the LGU; and (d) require the Municipal Engineering Office and other officials concerned to disclose all relevant information of PPAs as required by COA Circular No. 2013-004 dated January 30, 2013 in order to promote transparency and accountability.

4. Management did not fully comply with the regulations on the utilization and reporting of the Municipal Disaster Risk Reduction and Management Fund (MDRRMF) as well as on the safeguarding of calamity-related supplies/equipment contrary to the provisions of R.A. No. 10121, the Philippine Disaster Risk Reduction and Management Act of 2010, NDRRMC-DBM-DILG Joint Memorandum Circular No. 2013-1 dated March 25, 2013, COA Circular No. 2012-002 dated September 12, 2012, COA Circular No. 2014-002 dated April 14, 2014, and Sections 4(5) and 4(6) of P.D. No. 1445; thus, the desired goals of reducing disaster risk and enhancing disaster preparedness, prevention, mitigation and response capabilities may not be optimally achieved and the financial information on disaster funds may not be reliable. (*Observation No. 8*)

We recommended and management agreed to (a) conduct a thorough planning in order to maximize the utilization of the LDRRMF to provide the benefits intended for the constituents; (b) instruct the MDRRMO to (i) ensure compliance with the prescribed minimum standards for disaster preparedness developed by the DILG and LGA; and (ii) apply for fidelity bond being the accountable officer for government-owned DRRM property; (c) safeguard all procured and donated supplies and equipment against losses and wastages by providing adequate facility or warehouse; (d) furnish the Audit Team with Report on Sources and Utilization of DRRMF in the required format through the LDRRMC and the LDC on or before the 15th day after the end of each month; and (e) instruct the Municipal Accountant to perform a thorough review of all disbursement claims to ensure that these are properly supported with complete documentation and proper approval by authorized officials/representatives.

5. The procurement and implementation of 15 infrastructure projects aggregating to ₱337,670,526.83 were unreliable because of the habitual failure of the Municipality to comply with some provisions of the bidding process provided under the Revised Implementing Rules and Regulations (IRR) of Republic Act (R.A.) No. 9184 and the

pertinent sections of COA Circular No. 2012-001 and Department of Public Works and Highways (DPWH) Department Order (DO) No. 216 dated June 14, 2012 and November 16, 2000, respectively; thus, the validity of the contracts and the propriety of the related disbursements could not be ascertained. (*Observation No. 12*)

We recommended that management undertake the following courses of action:

- a) Instruct the Municipal Accountant to ensure that all supporting documents are complete and attached to the disbursement vouchers before effecting payments;
- b) Require the Bids and Awards Committee (BAC) to (i) post Notice of Award and Notice to Proceed to PhilGEPS within the prescribed period; (ii) invite representatives from COA and other observers in various stages of the bidding in accordance with the provisions of Section 13 of the Revised IRR of R.A. No. 9184; and (iii) submit copies of contracts to the Auditor's Office within five working days from the execution and signing thereof; and
- c) Advise the BAC and the Municipal Engineer to ensure strict compliance with DPWH Department Order No. 216 on the submission of photographs with imprinted dates to facilitate verification of the existence and work progress of each project.

The other audit observations, together with the recommended courses of actions, are discussed in detail in Part II of the report.

F. Summary of Suspensions, Disallowances and Charges

As of December 31, 2019, the Municipality had outstanding suspensions and disallowances of ₱4,922,508.28 and ₱3,072,011.72, respectively. There were no audit charges during the year as shown below:

Particulars	Beginning Balance (As of December 31, 2018)	This period January 1 to December 31, 2019		Ending Balance (As of December 31, 2019)
		NS/ND/NC	NSSDC	
Notice of Suspension	₱4,922,508.28	₱ -	₱ -	₱ 4,922,508.28
Notice of Disallowance	4,189,190.27	-	1,117,178.55	3,072,011.72
Notice of Charge	-	-	-	-
Total	₱9,111,698.55	₱ -	₱1,117,178.55	₱ 7,994,520.00

G. Status of Implementation of Prior Years' Unimplemented Audit Recommendations

Out of the 58 unimplemented recommendations contained in our previous years' Annual Audit Reports (AARs), 23 or 39.65% were fully implemented, 14 or 24.14% were partially implemented and 21 or 36.21% were not implemented at all.