

EXECUTIVE SUMMARY

A. Introduction

The Municipality of San Narciso was founded in the early part of the eighteenth century. The migrants from the Ilocandia arrived in the Municipality and established their settlement in Alusiis. Alusiis was the first name of the Pueblo which later became San Narciso. San Narciso has been the official name of the town by virtue of a Royale Decree issued by the Spanish Governor General Narciso Claveria and Archbishop Jose Soque on February 12, 1846.

The Municipality is headed by Honorable William T. Lim and duly assisted by Honorable Joel E. Manangan, the Municipal Council, and various Department Heads. Together, these officials aim to continually provide their constituents with basic services and maintain peace and order.

B. Financial Highlights

The following comparative data show the financial position, results of operation and sources and application of funds of the Municipality of San Narciso, Zambales for the year 2019 with comparative figures in CY 2018:

	2019	2018	Increase/ (Decrease)
Financial Position			
Assets	₱303,264,208.39	₱258,267,099.93	₱44,997,108.46
Liabilities	62,094,960.27	66,446,087.71	(4,351,127.44)
Equity	241,169,248.12	191,821,012.22	49,348,235.90
Results of Operation			
Income	107,107,187.20	100,645,484.44	6,461,702.76
Expenses	86,935,791.92	83,320,540.86	3,615,251.06
Surplus	20,171,395.30	17,324,943.58	2,846,451.70
Sources and Application of Fund- General Fund & Special Education Fund			
	Budget	Actual	Difference
Revenues/Receipts	107,859,217.66	107,107,187.22	752,030.44
Appropriations/Obligations	118,719,319.95	80,582,601.54	38,136,718.41
Surplus (Deficit)	(₱10,860,102.29)	₱26,524,585.68	₱37,384,687.97

C. Scope of Audit

The audit covered an examination, on a test basis, of the accounts and financial transactions of the Municipality for the year ended December 31, 2019. Based on the audit instructions issued by the Local Government Sector (LGS), COA Central Office under Memorandum dated July 3, 2019, the audit included verification of supporting documents of pre-selected accounts and areas, employing audit procedures and techniques such as analysis of accounts and other procedures considered necessary.

The exceptions noted in the audit are discussed in detail in Part II of this 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 Opinion

A qualified opinion was rendered on the fairness of presentation of the financial statements of the Municipality of San Narciso, Zambales as of December 31, 2019 because of (a) overstatement of Property, Plant and Equipment (PPE) and Equity accounts due to non-provision of depreciation amounting to ₱231,000.00 for construction and heavy equipment acquired in prior year; (b) Non-recognition of various equipment purchased out of Trust Fund and BuB funds understating assets, liabilities and equity by ₱805,749.60, ₱665,444.00 and ₱140,305.60, respectively; (c) Overstatement of Inventories account by ₱186,497.05 due to failure to record supplies already issued/consumed at year-end; and (d) failure to disclose in the Financial Statements (FS) or in the Notes to the FS the reconciliation of the surplus/deficit with the Net Cash Flows from Operating Activities under the Statement of Cash Flows and the Statement of Comparison of Budget and Actual Amounts, inconsistent with IPSAS 1, 2 and 24.

In view of the foregoing, we recommended that management instruct the Municipal Accountant to undertake the following courses of action:

On the PPE

- take up depreciation of the newly procured dump truck by debiting Prior Period Adjustment and crediting Accumulated Depreciation-Construction and Heavy Equipment accounts in the amount of ₱231,000.00; and
- recognize the unrecorded assets of ₱805,749.60 in the appropriate accounts consisting of collapsible stretcher (₱40,000.00), fabrication and installation of Warning and Information Signs (₱100,305.60) and various equipment purchased out of the Trust Fund/BuB funds (₱665,444.00).

On the Inventories account

- draw Journal Entry Vouchers (JEVs) taking up the issued/consumed supplies and materials at year-end.

Departure from IPSAS on the reconciliation of surplus/deficit

- reconcile accounting and budgetary records on a monthly basis;
- monitor and supervise closely the preparation of the SCBAA and other financial reports; and

- divide the workload properly among staffs, and continually orient them on their specific assignments to prevent incurrence of immeasurable delays and deficiencies in FS preparation.

E. Summary of Significant Observations and Recommendations

Summarized below are the other significant observations and recommendations which are discussed in detail in Part II of this report; to wit:

1. The recorded balances of the Real Property Tax (RPT) and Special Education Tax (SET) receivables amounting to ₱9,700,029.73 and ₱19,039,852.94, respectively, as of December 31, 2019 were unreliable due to (a) the departure from the prescribed accounting policies such as (i) recognition of receivables based on Annual Collection Estimates for Realty Tax Payment of the Assessor's Office in lieu of the Certified List of Taxpayers and Real Property Tax Account Register/Taxpayer's index card; and (ii) unreconciled differences of ₱2,739,641.13 between the recorded RPT and SET Receivables and the related Deferred Credits accounts contrary to Sections 19 (b) and 20, Volume I of the New Government Accounting System (NGAS) for Local Government Units. (*Observation No. 2*)

We recommended that management require the Municipal Accountant to (i) secure the certified list of taxpayers and the amount of taxes due and collectible from the Municipal Treasurer to have a concrete basis in the set-up of RPT/SET Receivables; and (ii) trace/determine the cause of the variances and record the adjustments needed to reconcile the recorded RPT and SET Receivables and the related Deferred Credits accounts.

2. The low project accomplishment rate and the continuous non-compliance of the LGU with the documentary and security requirements and prescribed reporting system for 20% Development Fund prevented the optimum attainment of desired socio-economic development and environmental management outcomes; rendered doubts on the regularity and legality of the transactions; and hindered the conduct of auditorial review and timely communication to management of any deficiencies and/or observations that may be noted in audit contrary to the provisions of DILG-DBM Joint Memorandum Circular (JMC) No. 2017-1 dated February 22, 2017, 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (R.A.) No. 9184, and COA Circular No. 2012-001 dated June 14, 2012. (*Observation No. 5*)

We recommended that the Local Chief Executive instruct the:

- a. Municipal Planning and Development Coordinator and the Municipal Engineer to carefully plan/schedule activities from procurement to execution of all development projects to ensure timely implementation and completion thereof;
- b. Bids and Awards Committee (BAC) to (i) strictly comply with the required procurement processes and documentary requirements in accordance with the 2016 Revised IRR of R.A. No. 9184; (ii) comply with Sections 39 and 62 of the

2016 Revised IRR of R.A. No. 9184 requiring the contractor to post performance security with validity until the issuance of the Certificate of Final Acceptance and warranty security which runs for a period of one year from the date of final acceptance of the project; and (iii) submit the succeeding contracts and all supporting documents thereto for auditorial review by the Audit Team within five working days from execution pursuant to Section 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009; and

- c. Municipal Accountant to verify all supporting documents as to completeness and see to it that the same are attached to the disbursement vouchers before payments are made to establish the legality and proper accountability over financial transactions.

3. The Municipality failed to comply with the applicable laws, rules and regulations as evidenced by expenditures incurred for various Bottom-up Budgeting (BuB), Aid to Disadvantaged Municipalities (ADM) and Assistance to Municipalities (AM) projects which were not duly substantiated with required documents contrary to Section 4 (6) of P.D. No. 1445, COA Circular No. 2012-001 dated June 14, 2012 and the pertinent provisions of the Revised Implementing Rules and Regulations (RIRR) of R.A. No. 9184. As a result, the validity, propriety and legality of the disbursements are deemed doubtful. **(Observation No. 6)**

We recommended that the Local Chief Executive (LCE) instruct the (a) Municipal Planning and Development Coordinator (MPDC) to communicate with the Source Agency of the BuB funded Project for CY 2016 regarding the possible return of the fund, if proven to be mistakenly transferred to the Municipality; and (b) the Municipal Accountant (i) to coordinate with the BAC for the completion and submission of the documentary deficiencies noted in the disbursement vouchers listed in Appendix G; (ii) cause the imposition of liquidated damages of ₱19,665.89 for the late completion of the Local Access Road Project or provide a reasonable explanation or justification for the non-imposition of the same; and (iii) henceforth, verify all supporting documents as to completeness and see to it that the same are attached to the disbursement vouchers before payments are made.

4. Lapses were noted such as (a) minimal utilization of the 70% Mitigation Fund; (b) non-compliance with reporting requirements; (c) deficient procurement process; (d) incomplete documentation of disbursements; (e) improper use of rescue vehicles and charging of gasoline expenses which are not disaster-related; and (f) incorrect recording of transactions which may lead to unreliable financial information and non-attainment of desired goals of reducing disaster risk and enhancing disaster preparedness, prevention, mitigation and response capabilities as envisioned under R.A. No. 10121 and related COA issuances. **(Observation No. 7)**

We recommended that the Local Chief Executive instruct the:

- a. MDRRMO to (i) monitor and evaluate the utilization of MDRRMF based on the programs, projects and activities listed in the Work and Financial Plan; (ii) refrain from lending rescue vehicles and charging gasoline expenses for non-calamity related purposes; and (iii) furnish the Office of the Auditor with a copy of the Report on Sources and Utilization of DRRMF in the required format through the LDRRMC and the Local Development Council on or before the 15th day after the end of each month;
- b. Municipal Accountant to (i) 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; and (ii) ensure that succeeding transactions have been properly recorded to the appropriate accounts; and
- c. Bids and Awards Committee (BAC) to strictly comply with the provisions of the 2016 Revised IRR of R. A. No. 9184 to ensure that all procurements are conducted in a manner that would be most advantageous to the Municipality.

Our observations and recommendations were discussed with the concerned management officials and staff during an exit conference. Their comments were incorporated in the report, where appropriate.

F. Summary of Suspensions, Disallowances and Charges

The total audit disallowances as of December 31, 2019 amounted to ₱11,431,027.19. There were no unsettled audit suspensions and charges as shown in the matrix below:

	Beginning Balance (As of January 01, 2019)	This period January 01 to December 31, 2019		Ending Balance (As of December 31, 2019)
		NS/ND/NC	NSSDC	
Notice of Suspension	₱ -	₱ -	₱ -	₱ -
Notice of Disallowance	11,431,027.19	-	-	11,431,027.19
Notice of Charge	-	-	-	-
Total	₱11,431,027.19	₱ -	₱ -	₱11,431,027.19

G. Status of Implementation of Prior Year's Unimplemented Audit Recommendations

Out of the 50 unimplemented audit recommendations contained in our previous year's Annual Audit Report (AAR), seven or 14.00% were fully implemented, 27 or 54.00% were partially implemented and 16 or 32.00% were not implemented at all.