

## Executive Summary

### A. Introduction

The Municipality of San Felipe, Zambales was created on March 1, 1908. It is comprised of 11 barangays and has a land area of 11,159.59 hectares.

Through the leadership of Mayor Leo John M. Farrales, and the support of Vice Mayor Mary Ann R. Quiba, Sangguniang Bayan Members, and the different department heads, the Municipality continued to deliver public services and improved facilities to its constituents.

### B. Financial Highlights

The following data summarize the financial position, results of operation, and sources and application of funds of the Municipality of San Felipe, Zambales for calendar year 2019 with comparative figures for calendar year 2018:

	2019	2018	Increase/ (Decrease)
<i>Financial Condition</i>			
Assets	₱254,380,637.59	₱241,543,841.38	₱12,836,796.21
Liabilities	69,557,970.11	71,297,972.82	(1,740,002.71)
Government Equity	184,822,667.48	170,245,868.56	14,576,798.92
<i>Results of Operations</i>			
Income	109,453,674.22	135,860,978.79	(26,407,304.57)
Expenses	98,445,233.41	88,312,138.09	10,133,095.32
Surplus	11,008,440.81	47,548,840.470	(36,540,399.89)
<i>Sources and Applications of Funds-General and Special Education Fund</i>			
	Budget	Actual	Difference
Revenues/Receipt	114,053,060.16	109,453,674.22	4,599,385.94
Appropriations/ Expenditures	114,646,410.11	105,956,992.04	8,689,418.07
Surplus (Deficit)	₱ (593,349.95)	₱ 3,496,682.18	₱ (4,090,032.13)

### C. Scope of Audit

The audit covered the accounts and operations of the Municipality of San Felipe for the year 2019 which were identified as thrusts/priority audit areas pursuant to the audit instructions laid down by the COA – Local Government Sector (LGS) as per Unnumbered Memorandum dated July 3, 2019. It included the examination of supporting documents of selected accounts and transactions on a sampling basis, application of audit techniques and procedures, such as analytical review of the financial statements, and other audit procedures considered necessary to attain the audit objectives.

The objectives of the audit were to (a) ascertain the level of assurance that may be placed on management's assertion 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**

A qualified opinion was rendered on the fairness of presentation of the financial statements of the Municipality of San Felipe, Zambales as of December 31, 2019 because of net overstatement in the assets and equity accounts of ₱3,425,871.82 due to accounting errors such as (a) non-provision of depreciation of ₱3,829,769.13 on depreciable PPEs; (b) non-recognition of PPEs amounting to ₱183,078.12; (c) improper recording of assets with net understatement of ₱141,976.00; and (d) understatement of Receivables account by a net amount of ₱88,843.19.

We recommended that management:

##### *On the PPE*

- instruct the Municipal Accountant to (i) exhaust all means to determine the details and information relating to the six categories of PPE such as Water Supply System, Hospitals and Health Centers, Markets, Slaughterhouses, Marine and Fishery Equipment and Technical & Scientific Equipment, and compute the corresponding depreciation for each depreciable asset; and (ii) draw a Journal Entry Voucher (JEV) to record the depreciation for various PPEs; recognize the PPEs purchased under the Trust Fund; and correct the improper recording of assets.

##### *On the Receivables account*

- direct the Municipal Accountant to (i) draw adjusting journal entries to correct the misstatement of the Receivables account and corresponding income accounts: (ii) adjust the RPT/SET Receivables and related Deferred Credits accounts whenever remittances of Municipal shares are received from the PGZ; and (iii) coordinate closely with the Provincial Accountant in obtaining the PGZ Report on Collections of RPT and Taxes on Sand, Gravel and Other Quarry Products every end of the year to serve as basis for the recognition of receivables and related income accruing to the Municipality; and
- advise the Municipal Treasurer to furnish MAO promptly a copy of the list of delinquencies or outstanding receivables of the Public Market as basis for the accrual of unpaid leases as at year-end.

#### **E. Summary of Other Significant Audit Observations and Recommendations**

The other significant observations and recommendations that need immediate action are as follows:

1. The recorded balances of the Real Property Tax (RPT) and Special Education Tax (SET) Receivables amounting to ₱13,886,006.07 and ₱13,940,555.66, respectively, as of December 31, 2019 were unreliable due to (a) recording of receivables based on the Quarterly Report on Real Property Assessment from the Municipal Assessor's Office in lieu of the Real Property Tax Account Register (RPTAR) and Certified List of Taxpayers; and (b) unreconciled differences of ₱133,663.94 between the recorded amount of RPT/SET Receivables and the related Deferred Credits accounts contrary to Section 20, Volume I of the New Government Accounting System (NGAS) for Local Government Units. ***(Observation No. 3)***

We recommended that management undertake the following courses of action:

- a. instruct the Municipal Treasurer to (i) furnish the Municipal Accountant of a duly certified list showing the names of taxpayers and the amounts due and collectible for the year to serve as basis of recording; and (ii) intensify efforts on collection to increase RPT and SET collection efficiency; and
- b. direct the Municipal Accountant to (i) make use of the Certified List of Taxpayers and Taxes Due to be submitted by the Municipal Treasurer as basis for setting up the RPT/SET Receivables and Deferred Credits at the beginning of the year; and (ii) trace the cause of disparity/errors and record the adjustments to reconcile the variance between the recorded RPT and SET Receivables and the related Deferred Credits accounts.

2. The Municipality failed to comply strictly with the provisions of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act No. 9184 and COA Circular No. 2012-001 dated June 14, 2012 on the proper documentation of goods and infrastructure projects acquired thru public bidding/negotiated procurement in an aggregate amount of ₱10,583,581.20, thus, we rendered doubts on the regularity and legality of the transactions. ***(Observation No. 4)***

We recommended and the Local Chief Executive agreed to undertake the following courses of action:

- a. instruct the Bids and Awards Committee (BAC) to (i) ensure the completeness of all information and supporting documents submitted by bidders during the evaluation of technical/financial documents and eligibility check; and (ii) 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
- b. advise the Municipal Accountant to coordinate with the BAC for the completion and submission of the documentary deficiencies of the aforementioned five projects and ensure that only disbursement vouchers with complete documentation are processed and presented for payment.

3. Collection efforts were not intensified and legal/administrative remedies were not resorted to; thus, the Municipality failed to realize real property taxes of ₱49,789,667.77 from 6,139 delinquent taxpayers contrary to Section 57 of P.D. No. 464 and pertinent provisions of R.A. No. 7160. (*Observation No. 12*)

We recommended and management agreed to instruct the Municipal Treasurer to (i) comply with the required posting of the Notice of Delinquency and regularly send demand letters to delinquent taxpayers; and (ii) avail of all legal and administrative remedies either by administrative action through levy on real property or judicial action as a last resort.

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

**F. Summary of Total Audit Suspensions, Disallowances and Charges**

The summary of the total audit suspensions, disallowances, and charges as of year-end is provided below; to wit:

	Beginning Balance (As of December 31, 2018)	This period (January 1 to December 31, 2019)	Settlement this period (January 1 to December 31, 2019)	Ending Balance (As of December 31, 2019)
		NS/ ND/ NC	NSSDC	
Notice of Suspension	₱2,904,828.71	₱ 0.00	₱231,168.00	₱2,673,660.71
Notice of Disallowance	112,113.13	0.00	68,160.00	43,953.13
Notice of Charge	0.00	0.00	0.00	0.00
<b>Total</b>	<b>₱3,016,941.84</b>	<b>₱ 0.00</b>	<b>₱299,328.00</b>	<b>₱2,717,613.84</b>

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

Out of the 31 unimplemented recommendations contained in the previous years' Annual Audit Reports (AARs), eight or 25.81% were fully implemented, 17 or 54.84% were partially implemented and six or 19.35% were not implemented at all.