

EXECUTIVE SUMMARY

Introduction

Panguil (pronounced as Pangil) was founded in 1579 by two Franciscan missionaries. The town's name is believed to have come from three coincidental circumstances: One historical version was that it was named after the fang of a wild boar called "Panguil" in the vernacular; another version accounts to the first native inhabitants of the place called "Panguilagan"; and the third version relates about the place being once dominated by the first pre-Spanish chieftain name Gat Panguil.

The Municipality of Pangil is a fourth class Municipality in the Province of Laguna and is comprised of eight Barangays.

The Organizational Structure of the Municipality is as follows:

a. Key Officials

- Municipal Mayor
 - Hon. Gerald A. Aritao (From February 3, 2020 to present)
 - Late Mayor Jovito D. Reyes (June 30, 2019 to February 2, 2020)
- Municipal Vice Mayor
 - Hon. Divine Grace G. Astoveza (February 3, 2020)
- Members of the Sanggunian
 - 1. Hon. Joselito C. Pajarillo
 - 2. Rianne May M. Diaz
 - 3. Gildo D. Aguilar
 - 4. Juber V. Aritao
 - 5. Ma. Eden Villacruz
 - 6. Alexander S. Visaya
 - 7. Ronald D. Nalagan
 - 8. Roberto M. Flores
 - 9. Jemuel Joe Ovrante
- Municipal Accountant
 - Ms. Josephine G. Apalla
- Municipal Treasurer
 - Ms. Flordeliza S. Santelices

b. No. of Personnel Complement

• Permanent	80
• Temporary	52
• Job-Orders	83
• Elective Officials	11
• Co-Terminus	<u>4</u>
Total	<u>230</u>

Audit Objectives

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Scope of Audit

Financial and compliance audits were conducted on the accounts and operations of the Municipality of Pangil for Calendar Year (CY) 2019. The audit consisted of interviews with concerned local officials and employees, tracing account balances through the accounting system, verification of disbursements with underlying documents, inspection, analysis and reconciliation of accounts and such other procedures considered necessary.

The audit was conducted to ascertain the propriety of financial transactions and compliance with prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of the account balances in the financial statements.

Financial Highlights

For CY 2019, the Municipal Government has a total current appropriation of P107,185,829.84 from its General Fund (GF) and Special Education Fund (SEF) amounting to P105,282,629.84 and P1,903,200.00, respectively. The Municipality also has Continuing Appropriations of P14,883,988.08 for GF and P0.00 for SEF.

The entire amount of the Municipality's current appropriation was allotted as of year-end. Obligations incurred for the GF and SEF amounted to P97,903,019.90 and P1,903,200.00, respectively, or a total of P99,806,219.90. Out of the Continuing Appropriations of P14,883,988.08, the amount of P5,942,107.13 was obligated, leaving a balance of P8,941,880.95. For CY 2019, the Municipality has total income of P100,538,419.58.

The total assets, liabilities, government equity, income and expenses for CY 2019 of the Municipal Government as follows:

	2019	2018	Increase/ (Decrease)
Assets	P195,111,408.77	P182,090,578.31	P13,020,830.46
Liabilities	67,875,290.12	60,787,359.69	7,087,930.43
Equity	P127,236,118.65	P121,303,218.62	P 5,932,900.03
Revenue	<u>P100,538,419.58</u>	<u>P94,957,135.06</u>	<u>P 5,581,284.52</u>
Expenses			
Personal Services	51,134,043.85	46,803,238.44	4,330,805.41
Maintenance and Other Operating Expenses	34,715,446.90	32,739,032.27	1,976,414.63
Financial Expenses	954,049.38	1,116,695.02	(162,645.64)
Non-Cash Expenses	7,430,708.74	3,410,035.27	4,020,673.47
Transfers, Assistance and Subsidy	<u>1,599,802.55</u>	<u>895,578.70</u>	<u>704,223.85</u>

	2019	2018	Increase/ (Decrease)
Total Expenses	<u>95,834,051.42</u>	<u>84,964,579.70</u>	<u>10,869,471.72</u>
Surplus for the Period	<u>P 4,704,368.16</u>	<u>P 9,992,555.36</u>	<u>(P5,288,187.20)</u>

Audit Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements due to the following:

1. The reliability of Cash and Cash Equivalent with year-end balance of P59,283,074.30 is doubtful due to the following deficiencies:
 - a. Seventeen (17) stale checks totaling P100,036.97 remained unadjusted as of December 31, 2019, thus resulting in the understatement of both Cash in Bank and Accounts Payable accounts by the same amount. In addition, the Municipal Treasurer did not send written notice to the payees on the existence of the checks one month before these become stale.
 - b. Bank Reconciliation Statements of four depository accounts of the Municipality in the total amount of P915,942.34 were not prepared for the month of December 2019, thus affecting the reliability of Cash in Bank with year-end balance of P59,299,703.18.
 - c. The guidelines set forth on dishonored checks and replacement thereof were not complied with, resulting in the understatement of Cash – Local Treasury and Permit Fees by P49,846.30 and P12,166.30, respectively, and overstatement of Cash in Bank – Local Currency, Current Account (LCCA) by P37,680.00.
2. The reliability and existence of the Property, Plant and Equipment accounts totaling P109,833,156.34 (net of accumulated depreciation of P39,908,890.99) and Biological Assets totaling P5,434,073.00 were doubtful due to the inability of the Inventory Committee to conduct physical count of property of the Municipality, and prepare and submit the Report on the Physical Count of Property, Plant and Equipment (RPCPPE), as well as, inventory report on biological assets due to manpower constraint.
3. Significant information to support the balances of accounts presented in the financial statements was not disclosed in the Notes to Financial Statements (NTFS), thus the users of the financial statements were not provided with additional information value.
4. Accounts Payable and Due to GOCCs in the amounts of P142,672.23 and P64,611.49, respectively, or a total of P207,283.72 which were outstanding in the books for more than two years to 18 years and not covered by actual claims were not reverted to the Unappropriated Surplus of the General Fund, thus, overstating the year-end balances of Accounts Payable and Due to GOCCs by P142,672.23 and P64,611.49, respectively, and understating the Prior Years' Adjustments by P207,283.72.
5. The collection of receivables totaling P3,255,441.51 aged from over five to 15 years was doubtful and yet no allowance for impairment loss was set-up, thus, resulting in the overstatement of receivables and related accounts as of year-end.

6. The reported balance of ₱5,550,638.75 of Trust Liability - Disaster Risk Reduction Management Fund (DRRMF) as of year-end of CY 2019 was understated by ₱1,599,802.55 due to the inability of the Municipal Accountant to record in the Trust Fund books the transfer of unexpended balance of Municipality's DRRMF for CY 2019 from General Fund to Special Trust Fund.

For the exceptions above cited, we recommended that the Municipal Mayor:

a. direct the:

- Municipal Accountant to prepare accounting entries to take up the cancellation of stale checks in the Books of Account of the Municipality by debiting Cash in Bank - LCCA and crediting Accounts Payable both in the amount of ₱100,036.97;
- Municipal Treasurer to prepare and send written notice to the payees at least one month before a check becomes stale as required under Section 59 of the Manual on New Government Accounting System (MNGAS) for Local Government Units (LGUs), Volume I;
- Municipal Accountant to prepare Bank Reconciliation Statements for all depository accounts and submit to the Auditor for his verification within ten days after the end of each month to ascertain the reliability of the Cash in Bank;
- Municipal Treasurer to:
 - cancel the official receipt covering dishonored check and to provide the Municipal Accountant with the debit memo and the photocopy of dishonored check pursuant to Section 57 of MNGAS for LGUs, Volume I; and
 - instruct the collector to issue official receipt in acknowledging replacement of dishonored check as required in Section 29 of same MNGAS;
- Municipal Accountant to draw Journal Entry Voucher to correct the noted deficiencies by debiting Cash – Local Treasury by ₱49,846.30 and crediting Prior Year's Adjustment and Cash in Bank - LCCA by ₱12,166.30 and ₱37,680.00, respectively.

b. address the issue on manpower constraint and direct the Inventory Committee to undertake physical inventory of PPE and biological assets, and prepare and submit the RPCPPE, as well as, report on the physical count of biological assets to the Office of the Auditor not later than January 31 of each year.

c. direct the Municipal Accountant to disclose the required information in the NTFS to assist the users in understanding the financial statements and to provide them with the additional information value;

d. direct the Municipal Accountant to revert to the Unappropriated Surplus of the General Fund the liability accounts totaling ₱207,283.72 by drawing accounting entry debiting Accounts Payable and Due to GOCCs by ₱142,672.23 and ₱64,611.49, respectively, and crediting Prior Years' Adjustments in the amount of ₱207,283.72.

e. direct the Municipal Accountant and the Municipal Treasurer to:

- conduct regular and periodic verification, analysis and validation of the existence of receivables and determine the concerned debtors pursuant to paragraph 7.1 of COA Circular No. 2016-005;
- exert effort in determining the collectability of the receivables and set up allowance for impairment for recognition of possible losses pursuant to paragraphs 67 and 72 of IPSAS 29; and
- complete the processing of requirements on filing of request for authority to write-off dormant receivables in accordance to COA Circular No. 2016-005 and submit to the Auditor for review and evaluation.

f. direct the Municipal Accountant to record the transfer of unexpended balance of Municipality's DRRMF in the Trust Fund books upon actual disbursement of fund out of the General Fund.

Other significant observations and recommendations are the following:

1. The contract for the construction of barangay bridge under design and build scheme in the amount of ₱6,553,422.00 was awarded to a contractor that has no technical experience in undertaking similar contract, contrary to Section 23.4.2.4 of the Revised Implementing Rules and Regulations (R-IRR) of Republic Act (RA) No. 9184, thus the project was only 15 percent completed as of year-end and with unjustifiable delays of 192 days. Furthermore, the project was not yet taken over by the Municipality and sanctions were not imposed to the contractor despite the unjustifiable delays, contrary to Paragraph 8.4 of Annex E of same R-IRR, thus rendering the contract disadvantageous to the government.

We recommended that the Municipal Mayor rescind the contract due to unreasonable delay in the completion of the project, imposed appropriate sanctions against the contractor as provided in the R-IRR, and direct the:

- Municipal Treasurer to claim the performance security of the contractor from the insurance company;
- Municipal Engineer to make a recommendation to the Local Chief Executive on the rescission of contract and takeover the prosecution of the project or award the same to qualified contractor in case of delay in the completion of the work of the future infrastructure project already exceeded a time duration equivalent to 10 percent of the specified contract time plus any time extension duly granted to the contractor; and
- Bids and Awards Committee to:
 - a. explain in writing why the contract was awarded to a contractor that has no technical experience in undertaking construction of barangay bridge under design

and build scheme, and why the expenditures amounting to ₱983,013.30 equivalent to 15 percent project completion should not be disallowed in audit; and

- b. recommend the award of contract to qualified contractor who has technical expertise in undertaking similar contract to assure timely completion of the project.
2. The contract for the implementation of Sustainable Livelihood Program amounting to ₱531,700.00 was awarded to supplier without strictly adhering to the eligibility check and post qualification requirements, contrary to Sections 23.4.1.3, 30.1 and 34.3 of 2016 R-IRR of RA No. 9184, thus, casts doubt on the transparency and competitiveness of the procurement process.

We recommended that the Municipal Mayor instruct the Bids and Award Committee to:

- submit documents and explanation in writing to the Auditor why the contract was awarded to ineligible supplier and why the amount of ₱531,700.00 should not be disallowed in audit; and
 - evaluate the bid documents submitted by the bidders meticulously and recommend the award of the contract to eligible and responsive bidder only.
3. Liquidated damages amounting to ₱39,744.00 for the delay in delivery of 100 sacks of rice were not deducted from the claim of the supplier, contrary to Item No. 3 of Annex D of the 2016 R-IRR of RA No. 9184, thus, resulting in the overpayment to supplier by same amount.

We recommended that the Municipal Mayor direct the Municipal Accountant to comply with Item No. 3 of Annex D of the R-IRR by deducting any amount of liquidated damages from the claim of the supplier as a result of delay in the delivery of goods.

We further recommend the collection of ₱39,744.00 from the supplier representing the amount of liquidated damages.

4. Procurements of materials for various infrastructure projects in the total amount of ₱2,103,440.92 were done as the need arises and splitted due to the lack of Annual Procurement Plan (APP), contrary to Sections 7.1 and 7.2 of the 2016 R-IRR of RA No. 9184, thereby depriving the Municipality of the volume discounts, contrary to Section 54.1 of same R-IRR.

We recommended that the Municipal Mayor:

- require the BAC Secretary to meticulously and judiciously plan the procurement and prepare the Municipality's APP and submit it to the Audit Team for audit;
- direct the end-users to prepare the purchase request for goods based on the approved APP; and
- direct the Bids and Awards Committee to:
 - a. purchase goods through public bidding and employ alternative method of procurement only in highly exceptional cases as provided for in the R-IRR;

- b. avoid splitting of government contracts; and
 - c. explain in writing why the expenditures for the purchase of materials should not be disallowed in audit.
5. Signboards installed for on-going infrastructure projects with contract amount totaling ₱22,350,988.93 did not contain detailed information and were not updated as required under COA Circular No. 2013-004, thus relevant information on Programs/Projects/Activities (PPAs) was not made available to the public which is not in line with the government's policy on transparency and public disclosure.

We recommended that the Municipal Mayor direct the Municipal Engineer to explain the reason/s on the non-provision of complete information and non-updating of signboards of PPAs; and henceforth ensure that the succeeding signboards of all implemented PPAs contained complete information and updated in compliance with COA Circular No. 2013-004.

6. Payment for the annual PhilHealth contribution of indigent members amounting to ₱1,440,000.00 sponsored by the Municipality was not supported with the list of beneficiaries and other documents showing evaluation of beneficiaries' eligibility under the indigent program of PhilHealth, contrary to Section 4 (6) of Presidential Decree (PD) No. 1445 and provisions of the IRR of RA No. 9241, thus, casts doubt on the validity and propriety of the transaction.

We recommended that the Municipal Mayor direct the:

- Municipal Social Welfare Development Officer (MSWDO) to evaluate annually the eligibility of prospective beneficiaries under the indigent program of PhilHealth and to prepare the list of indigent members to be approved by the Local Chief Executive;
 - Municipal Accountant to:
 - a. ensure that the payment for annual PhilHealth contribution of indigent members is supported with the list of beneficiaries and other documents showing evaluation of the MSWDO on the beneficiaries' eligibility under the indigent program; and
 - b. submit immediately to the Audit Team the lacking documents to facilitate the review of disbursements and to avoid suspension and/or disallowance in audit.
7. The appropriation for Gender and Development (GAD) is deficient by ₱781,750.00 against the mandatory requirement of five percent of the Municipality's total annual appropriation, contrary to Section 4.1 C.3(1) of the Joint Memorandum Circular (JMC) No. 2013-01 of the Philippine Commission on Women, Department of the Interior and Local Government (DILG), Department of Budget and Management and National Economic and Development Authority. Furthermore, the details of GAD Fund utilization were not posted in the conspicuous places and uploaded in the DILG Regional or Central Office websites, contrary to Section 3.5 of same JMC, thus relevant information thereof was not made available to the public which is not in line with government's policy on transparency and public disclosure.

We recommended the Municipal Mayor instruct the:

- Municipal Budget Officer to provide an estimated cost of implementing GAD activities equivalent to at least five percent of the Municipality's total budget appropriation for GAD related programs, projects and activities; and
 - GAD Focal Point System to cause the posting of GAD fund utilization in conspicuous places and uploading in the DILG Regional or Central Office websites in compliance with the full disclosure policy of the government.
8. Services for tipping or dumping of residual waste of the Municipality in the total amount of ₱1,563,296.00 were procured without the benefit of public bidding, contrary to Section 48.2 of the 2016 R-IRR of RA No. 9184, and not supported with documentary requirements under Item No. 9.1.3.2 of COA Circular No. 2012-001, thus, casts doubt on the regularity, validity and propriety of the transactions.

We recommended that the Municipal Mayor direct the:

- Bids and Awards Committee to explain in writing why public bidding was not adopted in the procurement of tipping or dumping services in the total amount of ₱1,563,296.00.
- Municipal Accountant to:
 - a. ensure that only complete and properly documented transactions are processed and paid; and
 - b. submit immediately to the Audit Team the lacking documents to facilitate the review of disbursements and to avoid suspension and/or disallowance in audit.

The above observations and recommendations were communicated to concerned Municipal officials and staff through audit observation memoranda (AOM). Management views and comments were incorporated in the report, where appropriate.

Unsettled Suspensions, Disallowances and Charges

The Statement of Audit Suspensions, Disallowances and Charges (SASDC) as of December 31, 2019 showed total disallowances of ₱1,041,071.43, and zero suspension and charges.

Status of Implementation of Prior Year's Audit Recommendations

As of December 31, 2019, out of 15 audit recommendations embodied in the 2018 Annual Audit Report, 11 were fully implemented, and four were not implemented by the Municipal Government of Pangil.