

EXECUTIVE SUMMARY

Introduction

The Municipality of Araceli is a fourth class island municipality located in the north-eastern part of the province of Palawan. It has a total land area of 17,680 hectares and occupies 1.19% of the Province's total land area. It was created on June 15, 1954 by virtue of Republic Act (RA) No. 1111, an act changing the name of the Municipality of Dumaran to Municipality of Araceli.

The Municipality consists of 13 barangays and has a population of 14,909 based on 2015 census.

Financial Highlights

For CY 2019, the Municipality realized a total income of ₱95,074,892.54 from internal revenue allotment, local taxes and other income.

The total assets, liabilities, government equity, income and expenses for CY 2019 compared with that of the preceding year are as follows:

	<u>CY 2019</u>	<u>CY 2018</u>	<u>Increase / (Decrease)</u>
Total Assets	208,071,020.25	₱195,441,742.15	₱12,629,278.10
Total Liabilities	120,602,328.68	136,519,427.08	(15,917,098.40)
Total Equity	87,468,691.57	58,922,315.07	28,546,376.50
Total Income	95,074,892.54	88,101,128.65	6,973,763.89
Total Expenses	82,578,483.90	77,594,207.94	4,984,275.96

Scope of Audit

The Audit Team conducted financial and compliance audits on the accounts, transactions and operations of the Municipality of Aaraceli, Palawan for CY 2019. The audit consisted of review of operating procedures, inspection and evaluation of the Municipality's programs and projects, interview with concerned municipal government officials, verification, confirmation, reconciliation and analysis of accounts on a test basis and such other procedures considered necessary under the circumstances.

The objectives of the audit are to (a) ascertain the level of assurance that may be placed on Management's assertions in the financial statements; (b) evaluate the extent of compliance with laws and regulations as well as the propriety and validity of transactions; (c) recommend measures to improve the efficiency and effectiveness of the agency's operations; and (d) determine the extent of implementation of prior years' recommendations.

Audit Opinion on the Financial Statements

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

1. The accuracy and validity of assets and liability accounts in the Statement of Financial Position as of December 31, 2019 totaling ₱57,454,340.18 could not be ascertained because the balances forwarded to the electronic New Government Accounting System (e-NGAS) accounts in April 2019 were not reconciled and not supported with schedule of subsidiary ledger balances of the controlling accounts; and
2. The validity and accuracy of the Cash in Bank-Local Currency, Current Account year-end balance of ₱59,160,476.54 could not be ascertained due to a) non-submission of Bank Reconciliation Statements (BRS) of four depository accounts and non-recording of valid reconciling items for BRS submitted; b) non-reconciliation of cashbook and accounting records; and c) existence of variance between Subsidiary Ledger (SL) and General Ledger (GL) amounting to ₱2,484,313.98.

Significant Observations and Recommendations

For the first exception cited above, we recommended that the (a) Municipal Accountant (i) trace, locate and recover the documents related to the above accounts, prepare a reconciliation thereof and record the details obtained in the respective subsidiary ledgers; and (ii) submit the required schedule of subsidiary ledger balances of the controlling accounts to the Audit Team to facilitate verification and audit of accounts and the financial statements; and (b) Municipal Mayor ensure that the Municipal Accountant maintains the required books of accounts including subsidiary ledgers.

For the second exception, we recommended that the (a) Municipal Accountant (i) immediately prepare and submit to the Audit Team the BRS for CY 2019 for the remaining four bank accounts; and (ii) exert diligent effort in identifying the composition of the variance between the SLs and GL in the GF and TF books; and (b) Municipal Treasurer (i) immediately transmit to the Municipal Accountant all paid Disbursement Vouchers, deposit slips and copies of available bank credit/debit memo still in her possession to facilitate recording thereof in the books; and (ii) regularly reconcile the cashbooks for the Cash in Bank-LCCA with accounting records in compliance with Section 63 of the Local Treasury Operations Manual so that discrepancies or errors could be immediately identified and corrected.

For CY 2019, the following are the other significant observations and recommendations:

1. The Municipality's available cash balance of ₱11,272,433.62 as of December 31, 2019 under the Trust Fund (TF) books was not enough to cover its existing current liabilities of ₱36,592,948.43 or a cash deficit of ₱25,320,514.81 indicating that trust receipts were used for purposes other than its intended purpose contrary to Section 309(b) of

Republic Act (RA) No. 7160, thus the objectives of the programs/projects/and activities funded out of the trust receipts may not be achieved and could affect the reputation and credibility of the Municipality in case of failure to pay its suppliers/contractors.

We recommended that the Municipal Mayor instruct the (a) Municipal Treasurer and the Municipal Accountant to reconcile their reports and records to determine the cause/s of the cash deficit in the TF books so that remedial measures can be implemented; and (b) the Municipal Accountant to explain the incurrence of cash deficit, and henceforth ensure the completeness and accuracy of records to enhance the integrity of accounting reports.

2. Cash advances totaling ₱1,560,577.97 remained unliquidated at year-end due to the failure of the Municipality to strictly enforce the rules and regulations on the granting, utilization, and liquidation of cash advances prescribed by COA Circular No. 97-002 dated February 10, 1997, thus exposing the funds to possible abuse or misuse and thereby overstating the Receivable and Government Equity account balances as the expenses were not recorded in the books in the year they were incurred.

We reiterated our recommendation that the Municipal Mayor, thru the Municipal Accountant, regularly serve written notice to accountable officers and employees to demand settlement of the outstanding cash advances and institute the necessary legal action against those who failed to settle their accountabilities.

The Municipal Accountant exert efforts in retrieving prior years' accounting records to itemize the unidentified balances amounting to ₱535,462.84 so that proper adjusting entries may be taken up in the books.

In all instances, the Municipal Mayor and the Municipal Accountant ensure that the provisions of COA Circular No. 97-002 dated February 10, 1997 are strictly observed and that all cash advances are fully liquidated at the end of the year.

3. The existence and accuracy of Property, Plant and Equipment (PPE) account with net book value of ₱53,865,970.11 as at December 31, 2019 could not be ascertained because it was not supported by physical inventory report, property cards, property ledger cards, complete lapsing schedules and updated Acknowledgement Receipt for Equipment (ARE) contrary to Sections 114, 119, 120, 123 and 124 of the Manual on the New Government Accounting System (NGAS) for Local Government Units (LGUs), Volume I.

We reiterated our recommendation that the Municipal Mayor require the Inventory Committee to complete the annual physical count of PPE, reconcile the results of the count with the property and accounting records, and submit the RPCPPE to the Audit Team, pursuant to Section 124 of the Manual on the NGAS for LGUs, Volume I. All discrepancies between physical and book inventories must be investigated, cleared and reconciled immediately. If necessary, written explanation should be required from

accountable and responsible person. He should likewise ensure that physical inventory be undertaken annually and reports be submitted accordingly.

In addition, the Property Custodian and the Municipal Accountant should be required to reconstruct and thereafter maintain the property cards and PPE ledger cards, respectively, in the forms prescribed in the said Manual. Also, the Property Officer should ensure that all issued PPE for official use of officials and employees are covered by ARE which shall be renewed every January of the third year after issue.

We also recommended that the Municipal Accountant review the PPE lapsing schedule and effect the necessary adjustments to correct the misstatements in the Accumulated Depreciation account of the aforementioned items of PPE.

4. Penalty of ₱247,935.15 was incurred for delayed payment of interest to the Municipal Development Fund Office (MDFO) for lack of appropriation therefor contrary to Section 303 of R.A. No. 7160, payment of interest totalling ₱4,702,243.91 was not capitalized as required by the International Public Sector Accounting Standards (IPSAS) No. 5 thereby overstating Interest Expense by ₱2,167,069.48, with corresponding understatement of the Government Equity and the Infrastructure Asset account by ₱2,535,174.43 and ₱4,702,243.91, respectively, while unpaid interest of ₱684,761.41 was not recognized in the books as at December 31, 2019.

We recommended that the:

- a. Municipal Mayor, thru the Local Finance Committee, ensure that sufficient appropriations for contracted obligations are provided for in the annual budget until such time that the loans are fully paid in order to avoid unnecessary delay in payment and penalties.
 - b. Municipal Accountant (i) capitalize the borrowing costs of the water supply system project and provide adequate disclosure thereof in the Notes to Financial Statements; and (ii) recognize the interest incurred for the loan intended for the Construction of Municipal Hall Building.
5. The COA-TAS inspected and noted several deficiencies in the actual works and implementation of various infrastructure projects totalling ₱10,402,940.92 resulting in total cost deficiencies amounting to ₱ 210,863.75. Delays were noted in their completion resulting in liquidated damages totalling ₱ ₱638,361.99.

We recommended that the:

- a. Municipal Mayor (i) demand payment from JB & Son Trading and Construction and 12-30 Construction for cost deficiencies totalling ₱123,078.60 and ₱87,785.15, respectively; (ii) demand payment from 12-30 Construction and Supply for the liquidated damages totalling ₱638,361.99; and (iii) be mindful of DPWH Department Order No. 102 dated November 8, 1988, re: Administrative Action on

Contracts with Negative Slippages to ensure timely and effective remedial steps in response to delays in project implementation, otherwise, liquidated damages shall be imposed in accordance with Section 8, Annex “E” of the Revised IRR of R.A. No. 9184. Please be reminded that concerned officials can be held personally liable for the amount for failing to take necessary measures to ensure that the project is implemented in accordance with the approved plans and schedules;

- b. Municipal Engineer submit a revised Bar Chart/S-curve showing the projected and actual physical accomplishments as of the contract expiry dates of April 14, 2018 for the “Upgrading of Poblacion Earth Road to PCCP” project to facilitate the computation of the total liquidated damages to be imposed; and
 - c. Municipal Engineer provide an updated Status of Work Accomplished for each project in order to facilitate monitoring, validation and follow up inspection.
6. Only ₱4,818,728.97 or 26.51% of the current year’s appropriations for 20% Development Fund (DF) of the Municipality was utilized. Out of the ten (10) projects, only three (3) were fully implemented, two (2) were partially implemented and five (5) have no reported accomplishment due to failure of Management to conduct proper monitoring and strict supervision which resulted in underspending and underperformance in the implementation of projects, thus depriving the constituents of the earliest or timely delivery of improved facilities and projects.

We recommended that a) the Local Chief Executive ensure the optimal utilization of the 20% Development Fund by fast-tracking the project implementation of on-going projects, reviewing those that may no longer be utmost priority and reprogram the same to other more important PPAs that are economically beneficial to the constituents; and b) the Municipal Development Council, the Municipal Planning and Development Coordinator, and the Municipal Engineer closely monitor and strongly pursue the timely and full implementation of all PPAs and regularly submit status reports to the Municipal Mayor so that appropriate measures can be instituted.

7. The approved Purchase Orders (POs) were not properly accomplished as they did not indicate the date of delivery, payment and delivery terms as required by Section 74 of COA Circular No. 92-386 dated October 20, 1992. Furthermore, Warranty Security for the Supply and Delivery of One (1) Unit Brand New Dump Truck was not submitted for further evaluation contrary to COA Circular No. 2012-001 dated June 14, 2012.

We recommended that the Municipal Mayor ensure that the PO is accomplished completely and accurately before approval in accordance with the requirements of Section 74 of COA Circular No. 92-386 dated October 20, 1992.

We further recommended that the Warranty Security for the Supply and Delivery of One Unit Brand New Dump Truck be submitted to this office for further evaluation.

8. The Status of Appropriations, Allotments, Obligations and Balances (SAAOB) in summary and detailed form was not submitted by the Municipal Budget Officer for review and audit contrary to the provisions of Section 72 of the Manual on the New Government Accounting System (NGAS) for LGUs, Volume I, COA Circular No. 2010-001 dated March 2, 2010, Paragraph 21 of the International Public Sector Accounting Standards (IPSAS) I and Section 7 of COA Circular No. 2009-006 dated September 15, 2009, thereby adversely affecting the timely audit and evaluation of financial transactions and accounts of the Municipality including the preparation of the annual audit report.

We recommended that the Municipal Mayor, as the one who is primarily responsible for all government funds and property, require the Municipal Budget Officer to submit to the Audit Team the SAAOB in summary and detailed forms and henceforth, submission of such reports should be made within the period prescribed by this Commission.

Status of Implementation of Prior Year's Audit Recommendations

Of the nineteen (19) audit recommendations contained in the 2018 Annual Audit Report, four (4) were fully implemented, eight (8) were partially implemented and seven (7) were not implemented by the Management during the year.