

EXECUTIVE SUMMARY

Introduction agency profile ng notes

The Municipality of Sofronio Española was created on February 24, 1994 by virtue of Republic Act No. 7679. This Municipality was formerly a barangay of Brooke's Point named "Pulot". With the conduct of plebiscite in May 1994, which was overwhelmingly approved by its constituents, this barangay became a full-pledged municipality. Classified as a 2nd class municipality of the Province of Palawan, it is composed of nine (9) barangays and has a total land area of 47,391 hectares.

The Municipality looks onward to a provincially competitive municipality in all endeavors to uplift the standard of living of its people. Likewise, the preservation and conservation of the natural resources as well as the marine and wild life are taken into consideration for a progressive municipality in the future.

Pursuant to RA No. 7160, otherwise known as the Local Government Code of 1991, the Municipality enjoys full autonomy in managing, deciding and planning its own administrative, fiscal and development affairs in conformity with the national government's thrust of sustainable ecological, social, and economic growth.

The Municipal Government Mission/Vision: "Sofronio Española is a progressive and sustainably developed municipality, a flourishing eco-tourism, and home of empowered community by the year 2023".

Financial Highlights

For CY 2019, the Municipality of Sofronio Española generated a total income of ₱187,134,266.93 from local taxes, permits and licenses, service and business income and Internal Revenue Allotment. The total funds utilized for the current year amounted to ₱197,634,785.28 or 65.73% of the total appropriations of ₱300,657,887.24.

The Municipality's financial condition and results of operations for Calendar Year (CY) 2019 compared with that of the preceding year are summarized below and shown in detail in the attached audited financial statements.

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
Assets	₱491,506,092.09	₱450,035,811.31	₱41,470,280.78
Liabilities	197,052,245.11	240,159,756.16	(43,107,511.05)
Equity	294,453,846.98	209,876,055.15	84,577,791.83
Income	187,134,266.93	168,560,739.21	18,573,527.72
Expenses	153,897,546.50	133,344,779.20	20,552,767.30

Scope of Audit

The Audit Team conducted financial and compliance audits on the accounts and operations of the Municipality of Sofronio Española, Palawan for Calendar Year 2019. The audit was conducted on a test basis to ascertain the fairness of the presentation of the financial statements and compliance of the Municipality to laws, rules and regulations. It was also made to ascertain the accuracy of financial records and reports. The audit consisted of review of operating procedures, interview of concerned government officials and employees, verification, reconciliation and analysis of accounts and such other procedures considered necessary.

The audit was conducted to (a) determine whether Management presented fairly the financial statements in adherence to the International Public Sector Accounting Standards; (b) ascertain the level of assurance that may be placed on management's assertions in the financial statements; (c) evaluate the extent of compliance with laws and regulations as well as the propriety and validity of transactions; (d) recommend agency improvement opportunities; and (e) determine the extent of implementation of prior years' audit recommendations.

Audit Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the Municipality of Sofronio Española for CY 2019 because (1) the validity, existence and correctness of the year-end balance of Property, Plant and Equipment (PPE) valued at ₱321,429,069.32, excluding Construction in Progress accounts, were doubtful due to (a) non-reconciliation of Report on the Physical Count of Property, Plant and Equipment of ₱365,635,250.61 and PPE Subsidiary Ledgers resulting in a difference of ₱44,206,181.29, (b) unidentified PPE in the SLs amounting to ₱431,710.48, (c) non- submission of SLs for PPE amounting to ₱684,500.00, and (d) incorrect computation of depreciation; and (2) non-transfer of 100% of the Local Road and Road Network System recorded in the Registry of Public Infrastructures to the respective PPE accounts thereby misstating the Road Networks account balance as at December 31, 2019.

Significant Observations and Recommendations

For the exceptions cited above, we reiterated our recommendation that the (a) the Municipal Mayor require the Inventory Committee to (i) conduct complete physical count of all properties of the Municipality and use the accounting records, if necessary in the absence of complete records of PPE from the Office of the GSO; and (ii) prepare the corresponding RPCPPE, otherwise, enforce the provisions of Section 127 of P.D. No. 1445 on administrative disciplinary action; (b) GSO and the Municipal Accountant thereafter reconcile the Report on the Physical Count of PPE, Property Cards, Property Ledger Cards, and accounting records, taking into consideration the noted deficiencies in audit, and furnish the Audit Team with the said report; and (c) Municipal Accountant apply the change in accounting policy on depreciation of PPE to reflect the correct balance of affected accounts in the Financial Statements and provide adequate disclosure therefor in the Notes to Financial Statements.

We further recommended that the (a) Municipal Mayor (i) instruct the Municipal Engineer to complete the inventory of the road network system and submit the report thereon to the Municipal Accountant for proper recording in the books; and (ii) enjoin the compliance of the Municipal Accountant, GSO, Municipal Engineer, MPDC and Municipal Assessor to complete the inventory of the local road and road network system of the Municipality for fair presentation of the account balance in the financial statements; and (b) Municipal Accountant provide a copy of the Registry of Public Infrastructures to the Audit Team for reference in the reversion of the infrastructure assets to the Road Network account.

The following are the other significant audit observations and recommendations in the audit of the Municipality of Sofronio Española for the year 2019:

1. The accuracy of the year-end balances of Cash in Local Treasury and Cash in Bank-Local Currency, Current Account (CIB-LCCA) amounting to ₱5,461,603.63 and ₱105,216,616.98, respectively, could not be ascertained due to (a) various reconciling items with total net effect of ₱273,085.00 remained unadjusted in the books contrary to Section 3.3 of COA Circular No. 96-011 dated October 2, 1996; (b) con-compliance with Section 63.F. of the Local Treasury Operations Manual (LTOM) on the monthly reconciliation of Cashbook balances with the Subsidiary Ledgers; and (c) 36 stale checks totaling ₱179,383.09 remained unadjusted in contravention with Section 59, Volume I of the NGAS Manual.

We recommended that the:

- b. Municipal Mayor require the (i) Municipal Accountant to furnish the Municipal Treasurer with the updated list of unrecorded deposits and disbursements based on the Bank Reconciliation Statements; and (ii) Municipal Treasurer to: (1) upon receipt of the list of unrecorded deposits and disbursements, trace the source documents of unidentified deposits and/or immediately transmit to the Municipal Accountant the report of collections and deposits (RCDs) and validated deposit slips corresponding to the unrecorded deposits, and the disbursement vouchers corresponding to the unrecorded disbursements to facilitate recording in the books; and (2) ensure that RCDs and the Report of Disbursements together with all supporting documents are properly transmitted within the prescribed period to the Municipal Accountant for recording in the books;
- b. Municipal Treasurer (i) in coordination with the Municipal Accountant determine previous years' transactions that led to discrepancy in their reports; and (ii) reconcile her cashbook balances with the Subsidiary Ledgers of the Municipal Accountant for Cash in Bank accounts every end of the month to ensure that all transactions are correctly recorded and reported;
- c. Municipal Treasurer (i) cancel the stale checks; (ii) closely monitor the issuance and releases of checks and send a written notice to the payee on the existence of the check at least one month before the checks become stale; and (iii) strictly follow

the procedures laid down in the LTOM in the preparation of the RCI and cancellation of checks; and

- d. Municipal Accountant (i) record the corresponding adjustments of the stale checks; (ii) revisit the existing process of receiving and recording of paid transactions and install sound internal control on these processes; and (iii) orient the concerned accounting staff on the correct processes and standard office procedures.
2. Cash advances totaling ₱11,912,878.11 remained unliquidated at yearend due to the failure of the concerned local officials to strictly enforce the rules and regulations on the grant, utilization, and liquidation of cash advances prescribed by COA Circular No. 97-002 dated February 10, 1997 thereby exposing funds to possible abuse or misuse.

We reiterated our recommendation that the Municipal Mayor:

- a. Send demand letters, thru the Municipal Accountant, to all concerned accountable officers, who are still connected with the Municipality and require immediate settlement of their outstanding cash advances, otherwise, cause the suspension/withholding of their salaries;
- b. File request for authority from COA to write-off dormant receivables/unliquidated cash advances duly supported with necessary papers/documents as embodied in COA Circular No. 2016-005; and
- c. Strictly observe the provisions of COA Circular No. 97-002 dated February 10, 1992 on the proper granting, utilization and liquidation of cash advances.

We recommended that the Municipal Mayor direct the Municipal Accountant to discontinue the practice of accepting partial liquidation by the accountable officers, instead require them to liquidate their accountabilities in full.

3. The Municipality failed to cause annotation on the seven parcels of land acquired in year 2019 totaling ₱3,776,640.00 contrary to Section 13 of COA Circular No. 2012-001 dated June 14, 2012 and with the current Moratorium on Land Titling imposed in the Province of Palawan, the Municipality was not assured of ownership over these parcel of lands in case of third party claims in the absence of an annotation at the back of the Transfer Certificate of Title (TCT) or Tax Declaration (TD).

We recommended that the Municipal Mayor instruct the Municipal Assessor and the Municipal Planning and Development Coordinator to cause/process the annotation of the TCT of acquired land and facilitate the transfer of the portion thereof in the name of the Municipality to prevent any future land dispute.

We also recommended that the Municipal Treasurer collect the applicable taxes from the previous owners and remit to the Bureau of Internal Revenue to avoid further

incurrence of penalties, otherwise those persons who authorized the payments will be personally liable for non-withholding and non-remittance of the taxes.

4. The Municipality failed to establish the Sanitary Landfill (SLF) despite the issuance of Environmental Compliance Certificate (ECC) on March 28, 2018 contrary to Section 37 of Republic Act (R.A.) No. 9003, thus indefinitely prolonging the practice of temporary holding the collected garbage in Residual Containment Area (RCA) to the disadvantage of the personnel handling garbage collection and harmful effects to the environment.

We recommended that the Municipal Mayor (a) instruct the Municipal Engineer to closely monitor the contractor's progress in the establishment of the SLF and impose liquidated damages, if warranted; (b) upon completion of the SLF, cause the transfer of the residual wastes and discontinue the RCA practice of collecting and storing wastes; (c) facilitate the funding and completion of other components included in the conditions and restrictions of the ECC before operating the SLF; and (d) thru the MENRO, submit a copy of the Management's reply to the inspection report of the DENR EMB dated August 16, 2018

5. The Municipality failed to execute Contract of Lease with the occupants of 110 market stalls contrary to Section 2B.04(c) of Ordinance No. 2015-113 otherwise known as of the Market Code of Sofronio Española, thus the terms and conditions laid down in the Market Code could not be implemented and enforced upon the stallholders to the disadvantage of the Municipality.

We reiterated our recommendation that the Municipal Mayor, with the help of the MEEDO, execute lease contracts/agreements with all the market stallholders to protect its interest.

6. The unpaid market fees including surcharges totaling ₱120,125.00 were not recognized as income in the books contrary to the principle of accrual basis of accounting under International Public Sector Accounting Standards (IPSAS) No. 1, thereby understating the balances of Receivable and Income accounts as at December 31, 2019.

We recommended that the (a) MEEDO provide the Municipal Accountant with the List of Stallholders with Unpaid Market Rental Fees at the end of the year, showing the amount due and surcharges, to facilitate timely recognition of accrued rental income; and (b) Municipal Accountant adopt the accrual basis of accounting in recording the market rental fees pursuant to IPSAS No. 1.

7. Only three (3) out of four (4) Disaster Risk Reduction and Management (DRRM) statutory positions were created and one of the three created positions was unfilled as at December 31, 2019 in violation of Section 12 (b) of R.A. No. 10121 thereby affecting the efficiency and effectiveness in the discharge of its services to the general public

We recommended that the Municipal Mayor fill-up and create the two statutory positions of the DRRM Office in compliance with Section 12 of R.A. No. 10121 to enhance its capacity and ensure efficient and effective delivery of services in time of calamities.

The audit observations and recommendations contained in the Report were discussed with the concerned officials and staff of the Municipality. Management's views and comments were incorporated in the Report, where appropriate.

Status of Implementation of Prior Years' Audit Recommendations

Of the twelve (12) audit recommendations embodied in the 2018 Annual Audit Report, two (2) were fully implemented, eight (8) were partially implemented while the remaining two (2) were not implemented by the Management.