

EXECUTIVE SUMMARY

Introduction

The Municipality of Ferrol was a former barangay of the Municipality of Odiongan. It was separated from the latter and became a municipality on June 11, 1978 by virtue of Presidential Decree No. 1492.

The Municipal Government continued to pursue its commitments to its constituents and still has its primary goal of providing basic services and facilities as enumerated in Section 17(b) of Republic Act (R.A.) No. 7160.

The financial statements are consolidation of General Fund, Special Education Fund and Trust Fund. The Local Government Unit (LGU) maintains different accounts in the Trust Fund which are the PNB-Regular, DAR-ARCP2 Sub-projects, SALIN-TUBIG Program, BUB Account, MDRRM Fund, PhilHealth – Professional Fee and PhilHealth – HCI Charges.

Financial Highlights

For Calendar Year (CY) 2019 the Municipality generated a total income of ₱53,221,618 which is higher by ₱6,386,877 or 13.64% compared with last year's ₱46,834,741. The internal revenue allotment of ₱48,867,730 represents 91.82% of the total income. Other major sources of income are local taxes, service and business income.

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

	CY 2019	CY 2018	Increase/ (Decrease)
Total Assets	₱ 186,103,907	₱ 173,385,679	₱ 12,718,228
Total Liabilities	22,007,236	69,145,833	(47,138,597)
Total Equity	164,096,671	104,239,846	59,856,825
Total Income	53,221,618	46,834,741	6,386,877
Total Expenses	43,381,879	34,850,414	8,531,465

Scope of Audit

Financial and Compliance as well as Performance Audit were conducted on the accounts, transactions and operations of the Municipality of Ferrol for CY 2019. The audit was aimed to (a) determine whether Management presented fairly the financial statements in adherence to the Philippine 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, rules and regulations as well as the propriety and validity of transactions; (d) recommend measures to improve the efficiency, and effectiveness of the agency's operations; 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 due to the recorded Inventory and Property, Plant and Equipment (PPE) accounts as at December 31, 2019 amounting to ₱878,302.55 and ₱113,239,797.41 (net of accumulated depreciation and excluding Construction in Progress), respectively, were not supported with complete and accurate Report on the Physical Count of Inventories (RPCI) and Report on the Physical Count of PPE (RPCPPE) contrary to the Manual on the New Government Accounting System (NGAS) for Local Government Units (LGUs), Volume I hence, the reliability of the amounts reflected in the Financial Statements could not be ascertained.

Significant Observations and Recommendations

For the exception cited earlier, we reiterated our recommendation that the Municipal Mayor: (a) require the Inventory Committee to conduct physical count of all Inventories and Property, Plant and Equipment (PPE) of the Municipality and submit the corresponding report to the Audit Team; and (b) instruct the Municipal Accountant to reconcile the resulting balance of the physical count with the accounting records in order to present the correct balances of said accounts in the financial statements and ensure the completeness of the supporting documents before making adjustments.

In addition, the following are other significant audit observations and recommendations in the audit of the Municipal Government of Ferrol for the year 2019:

1. Deficiencies were observed in the utilization and recording of the Local Disaster Risk Reduction and Management Fund (LDRRMF) which is not in accordance with Commission on Audit (COA) Circular No. 2012-002 dated September 12, 2012 thus, affecting the propriety of the transactions and rendering the balance of the Trust Liability – DRRM Account unreliable. Moreover, the Municipality failed to keep the minimum requirements for equipage and service delivery for disaster preparedness prescribed in the National Disaster Preparedness Plan (NDPP) Volume II, 2015 Edition due to its limited funds hence, the Municipality may not be able to respond timely and efficiently in times of calamities.

We recommended and the Municipal Accountant agreed to strictly adhere with the accounting and reporting guidelines set forth under COA Circular No. 2012-002 and reconcile the balances of the accounts affected by the transfer and use of LDRRM Fund. Moreover, disclose properly the balances of the Trust Liability – DRRM in the Notes to Financial Statements.

We also recommended that the LDRRM Officer incorporate the programs, projects and activities to be charged from the unexpended balances of the previous years' LDRRMF in the LDRRMFIP. Also, ensure that minimum requirements of equipage and pre-positioned food packs and hygiene kits are in place so that the Municipality could timely and efficiently respond in times of calamities.

2. The Municipality generated very low internally sourced taxes, fees and charges due to failure to explore other revenue measures hence, it is dependent on its share from the Internal Revenue Allotment (IRA) to sustain its operations as well as its programs and projects. Moreover, various lapses were noted in the market operations of the Municipality.

We recommended that: (a) the Local Finance Committee identify additional sources of income; (b) the Municipal Treasurer (i) determine doable measures to improve collection efficiency of internally sourced taxes, fees and charges; (ii) keep a master list of stallholders and indicate therein the vital information such as stall/table number, description of location whether it is inside, outside or corner stall, stall area, rate per square meter or rate per day; and (iii) maintain a subsidiary ledger of each stallholder; and (c) the Local Chief Executive execute contract of lease with the seven stallholders.

3. The Municipality paid in full the Representation Allowance and Transportation Allowance (RATA) of the Municipal Budget Officer and members of the Sangguniang Bayan (SB) despite their absences which is contrary to the Department of Budget and Management Local Budget Circular (LBC) No. 103 dated May 15, 2013 hence, payments relative thereto exceeded by ₱29,493.74. Moreover, payrolls were not supported with Application for Leave, Travel Order, and Certificate of Appearance which is not in accord with Section 4 (6) of Presidential Decree (PD) No. 1445 thus, proper verification could not be easily made.

We recommended that: (a) the Municipal Mayor direct the MBO and the concerned SB members to refund the excess RATA that were paid to them; and (b) the Municipal Accountant i) adhere to the provisions of LBC No. 103 in the computation of the RATA of municipal officials and employees; and ii) ensure that required supporting documents for the payrolls are complete pursuant to Section 4(6) of PD No. 1445.

4. The Municipal Government of Ferrol duly appropriated ₱9,874,980.00 for 20% Development Fund (DF). However, several infractions were noted in the utilization and implementation of the fund such as (a) failure to fully implement seven out of the fourteen projects, programs and activities (PPAs) with a sum of ₱3,764,566.53; (b) inclusion of five ineligible PPAs amounting to ₱1,200,000.00 contrary to the provisions of Department of the Interior and Local Government and Department of Budget and Management (DILG-DBM) Joint Memorandum

Circular (JMC) No. 2017-1 dated February 22, 2017; and (c) delayed completion of eight implemented projects amounting to ₱4,214,566.53 due to delay in the preparation of the program of works thereof thus, benefits that could be derived therefrom were not enjoyed by the intended beneficiaries.

We recommended that the Municipal Mayor direct: (a) the Municipal Planning and Development Council to identify priority development projects, review existing projects whether its implementation is compliant with the guidelines set and ensure that PPAs to be charged against the 20% DF includes only those allowed under the DILG-DBM JMC No. 2017-1; and (b) the Municipal Engineer to ensure timely, efficient and effective implementation of development projects so that economic benefits that could be derived therefrom will be enjoyed by the intended beneficiaries.

5. The Bids and Awards Committee (BAC) committed procedural lapses in the procurement activities on four infrastructure projects of the Municipality totaling ₱13,060,475.28 contrary to the provisions of the 2016 Revised Implementing Rules and Regulations (IRR) of Republic Act (R.A.) No. 9184 hence, rendering the contracts defective. Moreover, some documents are lacking in the payments made to contractors which is not in accordance with the Commission on Audit (COA) Circular No. 2012-001 dated June 14, 2012 thus, casted doubt on the reliability of the transactions.

We recommended that the BAC to: (a) provide all the requirements for the project in the bidding documents; (b) strictly adhere to prescribed period of action for the procurement activities; (c) scrutinize the documents submitted by the bidder and exercise diligence in post-qualification process; and (d) strictly adhere with the rules and regulations set forth by the procurement law.

We also recommended that the Municipal Accountant ensure the completeness of supporting documents before making payments.

6. The Municipal Accountant incurred significant delay in the submission of accounts, monthly trial balances and quarterly financial reports for CY 2019 which is not compliant with Commission on Audit (COA) Circular No. 2009-006, COA Circular No. 95-006 and Manual on New Government Accounting System (NGAS) for Local Government Units (LGUs). Moreover, delay in the submission of Bank Reconciliation Statements (BRSs) were also incurred contrary to COA Circular No. 96-011. These precluded the Audit Team from the timely verification of the financial transactions of the Municipality hence, possible deficiencies thereon were not communicated to the Management.

We recommended that the Municipal Mayor instruct the Municipal Accountant to: (a) give preferential attention on the submission of the accounts and financial reports within the reglementary period as required under COA Circular No. 2009-006, COA Circular No. 95-006 and Section 70, Volume I of the Manual on

NGAS for LGUs; and (b) revert back to proper cash in bank and payable accounts all stale checks; and submit the BRS for all of the Municipality's bank accounts within the reglementary period.

Other observations are presented in Part II of the report. Management's views and reactions were considered in the report, where appropriate.

Summary of Audit Suspensions, Disallowances and Charges

Below is the summary of suspensions, disallowances and charges as at December 31, 2019:

Particulars	Beginning Balance (As at December 31, 2018)	This period (January 1 – December 31, 2019)		Ending Balance (As at December 31, 2019)
		NS/ND/NC	NSSDC	
Notice of Suspension	₱ 0.00	₱ 0.00	₱ 0.00	₱ 0.00
Notice of Disallowance	1,026,000.00	0.00	0.00	1,026,000.00
Notice of Charge	0.00	0.00	0.00	0.00
Total	₱1,026,000.00	₱ 0.00	₱ 0.00	₱1,026,000.00

Status of Implementation of Prior Years' Audit Recommendations

Of the 42 audit recommendations contained in the Annual Audit Report of the Municipality of Ferrol, Province of Romblon for CYs 2015 – 2018, three (3) were fully implemented, twenty four (24) were partially implemented and fifteen (15) were not implemented.