

EXECUTIVE SUMMARY

Introduction

The Municipality of Romblon is classified as a 3rd class municipality. It was organized in 1818 when the Province of Romblon was incorporated with the Province of Capiz. N 1853, it was organized into a politico-military comandancia administered from Capiz. By virtue of Commonwealth Act 581, the municipality was made special municipality of the Province of Romblon.

Its operation is focused on the delivery of basic services and provision of adequate facilities as provided under Section 17 of Republic Act No. 7160; exercise general supervision and control over all programs, projects, services and activities; and generation of maximum resources and revenues for the implementation of development plans, programs and projects.

Financial Highlights

The municipality generated a surplus of ₱1,358,340 for CY 2019, lower by ₱11,211,327 or 89% compared with last year's surplus of ₱12,569,667. The Internal Revenue Allotment (IRA) received for the year was ₱110,733,168.00.

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	₱223,820,235	₱200,882,063	₱ 22,938,172
Total Liabilities	62,838,107	54,897,950	7,940,157
Total Equity	160,982,128	145,984,113	14,998,015
Total Income	107,100,321	120,491,279	(13,390,959)
Total Expenses	105,741,981	107,921,612	(2,179,632)

Scope of Audit

The Audit Team conducted financial and compliance audits on the accounts and operations of the Municipality of Romblon 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 (PPSAS); (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 measures to improve the efficiency and

effectiveness of the agency's operations; and (e) determine the extent of implementation of prior year's audit recommendations.

Audit Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the municipality because:

1. The Cash in Bank account is carried in the statement of financial position at ₱33,677,899.52 as at December 31, 2019. However, book reconciling items totaling ₱3,307,824.89 remained unrecorded in the books which constitutes a departure from PPSAS 1 thereby overstating the said account by ₱3,307,824.89;
2. The Share from Internal Revenue Collections (IRA) is carried in the statement of financial performance at ₱88,586,534.40 for the year ended December 31, 2019. However, it represents only 80% of the total IRA of ₱110,733,168.00. The remaining 20% amounting to ₱22,146,633.60 was improperly accounted as a liability instead of revenue which constitutes a departure from PPSAS 1 thereby overstating liability and understating revenue by ₱22,146,633.60;
3. The Due to NGAs account is carried in the statement of financial position at ₱5,410,991.66 as at December 31, 2019. During the year, an amount of ₱3,401,000.00 was received and recorded under the General Fund but was transferred later on to the Trust Fund. The said transfer was recorded in the books of General Fund but no corresponding entry was made in the Trust Fund in contravention of PPSAS 1. Consequently, the Cash in Bank and Due to NGAs accounts were both understated by ₱3,401,000.00;
4. The Due to Special Accounts is carried in the statement of financial position at ₱5,423,820.86 as at December 31, 2019. It represents the municipality's loan balance which was improperly reclassified from the proper account Loans Payable - Domestic. Moreover, payments made totaling ₱2,711,910.45 were not deducted from the loan balance in contravention of PPSAS 1 thereby overstating the liability account by ₱2,711,910.45;
5. The unexpended Quick Response Fund (QRF) and Mitigation Fund-MOOE totaling ₱3,867,163.27 were not transferred to a special trust fund as at December 31, 2019. Consequently, the accounts Transfer of Unspent Current Year DRRM Funds to the Trust Funds and the Trust Liabilities-Disaster Risk Reduction and Management Fund (DRRMF) were both understated by ₱3,867,163.27 contrary to PPSAS 1; and
6. The Due from Other Funds account is carried in the statement of financial position at ₱4,010,074.87 as at December 31, 2019. However, it includes an amount of ₱2,737,738.88 pertaining to unutilized/unexpended 2018 QRF and Mitigation

Fund – MOOE thus overstating the said account and understating Trust Liabilities – DRRMF by ₱2,737,738.88 contrary to PPSAS 1.

Significant Observations and Recommendations

For the exception cited above, we recommended that the Municipal Mayor require the Municipal Accountant to consider the proposed adjusting journal entry (PAJE) and henceforth ensure that: (a) all valid book reconciling items are recorded in the books; (b) full amount of IRA received is recorded as a revenue; (c) funds received from NGAs with attached obligation are accounted for under the Trust Fund; (d) loan balance is properly classified and adjusted to reflect the outstanding balance; (e) unexpended QRF and Mitigation Fund – MOOE are transferred timely to a special trust fund; and (f) reciprocal accounts are properly recorded and reconciled.

Other significant observations and recommendations in the audit of the accounts and transactions are the following:

1. Five programs, projects and activities (PPAs) under the Local Disaster Risk Reduction and Management Fund (LDRRMF) were not implemented thereby resulting in fund utilization rate of only 37% in contrast with Sections 1 and 3, Rule 18 of the Implementing Rules and Regulations (IRR) of Republic Act (R.A.) No. 10121. Moreover, there was no disclosure in the Notes to FS of the details and amounts of current and prior years' LDRRMF thereby depriving the management of significant and material information for decision making contrary to the requirement of PPSAS 1 – Presentation of Financial Statement (FS).

We recommended that the Municipal Mayor (a) enjoin the LDRRM Officer to justify/explain the low fund utilization rate caused by non-implementation of PPAs and ensure henceforth that the PPAs for disaster prevention and mitigation, response, rehabilitation and recovery be implemented and the funds therefore be utilized for the benefits of the constituents; and (b) require the Municipal Accountant to disclose in the Notes to FS the details and amounts of current and prior years' LDRRMF special trust fund.

2. Only ₱2,327,748.25 or 10% of the total Real Property Tax (RPT) and Special Education Tax (SET) Receivables of ₱23,817,554.43 was collected during the year, inconsistent with Section 247 of R.A. No. 7160 thereby depriving the municipality of huge income for basic services. Moreover, RPT and SET Receivables of ₱21,552,134.98 as at year-end do not tally with the List of all Real Property Tax Delinquencies of ₱15,376,256.20 and with its reciprocal accounts Deferred RPT and SET of ₱25,675,347.24, inconsistent with PPSAS 1 - Presentation of FS. Lastly, the municipality had not conducted tax mapping in compliance with Section 472(b)(5) of the same Act hence, the reports from which the receivables were based had been incomplete and outdated.

We recommended that the Municipal Mayor (*a*) instruct the Municipal Treasurer to adopt strategies in intensifying the collection of real property tax such as information campaign to encourage taxpayers to take advantage of early payment discount; (*b*) require the Municipal Treasurer and Accountant to reconcile their records and present the correct amount of tax delinquencies; (*c*) require the Municipal Accountant to reconcile the year-end balances of RPT and SET Receivables and Deferred RPT and SET accounts and adjust the GL and FS for the unrecorded collections; and (*d*) require the Municipal Assessor to coordinate with the Provincial Assessor in the conduct of tax mapping to update the real property units and their corresponding assessed value within the municipality.

3. There were 34 employees who were granted with new cash advance of ₱1,460,956.24 despite them having an outstanding balance and there were also 10 officials and employees who belatedly liquidated their cash advances of ₱225,066.00, both caused by weak internal monitoring contrary to Item Nos. 4.1.2 and 5.1 of COA Circular No. 97-002 dated February 10, 1997, thereby contributing to the accumulation of unliquidated cash advances stated at ₱6,876,393.72 as at year-end.

We recommended that the Municipal Mayor (*a*) instruct the Municipal Accountant to process only the request for cash advance of the officers and employees who have no outstanding balance; (*b*) require the officers and employees to liquidate immediately their outstanding balances; and (*c*) establish internal control in order to avoid late liquidation which should include issuance of written notice to persons with cash advances already bordering the deadline and with cash advances already due.

4. The validity and correctness of the Property, Plant and Equipment (PPE) year-end account balances totaling ₱134,882,217.68 could not be ascertained due to (*a*) PPE accounts recorded in the Trust Fund books totaling ₱9,063,753.14 were not transferred to the General Fund; and (*b*) failure to provide depreciation for depreciable assets amounting to ₱36,680,060.24 thereby overstating the PPE, net income and government equity accounts contrary to pertinent provisions of PPSAS 17 - PPE. Moreover, the Report on the Physical Count of PPE (RPCPEE) was noted with deficiencies and submitted late to the Audit Team contrary to Section 124 of the Manual on the New Government Accounting System (MNGAS) for LGUs, Volume I. Thus, rendering the reported balances of PPE accounts as at year-end unreliable.

We recommended that the Municipal Mayor (*a*) require the Municipal Accountant to transfer the completed PPEs from the Trust Fund to the General Fund and provide depreciation allowance for all depreciable PPEs in the books; (*b*) instruct the Municipal Engineer to determine the useful life of all infrastructure assets in order to compute depreciation expenses; (*c*) direct the Municipal General Services Officer (MGSO) to conduct a complete physical count of all PPEs, accomplish

properly the RPCPEE and submit it on time; and (d) require the Municipal Accountant to make sure that the SL, GL and FS are updated and reconciled.

5. The municipality exceeded the 45% Personal Services (PS) limitation by ₱8,708,225.47 contrary to Section 325(a) of Republic Act No. 7160. Despite the PS excess, the Municipality still implemented during the year the fourth tranche salary adjustment and granted the Service Recognition Incentive (SRI) thereby incurring additional PS cost of ₱3,201,414.94 and ₱475,000.00, respectively, contrary to Section 6.3.6 of Local Budget Circular (LBC) No. 98 dated October 14, 2011 and Section 6 of Administrative Order No. 19 dated December 2, 2019.

With the foregoing, we recommended that the Municipal Mayor thru the Municipal Budget Officer (a) strictly observe the limitation over the PS cost set forth under Section 325(a) of RA No. 7160 and Section 6.3.6 of LBC No. 98; (b) refrain from providing additional PS expenditures until such time that the PS cap is observed; and (c) require all officers and employees to refund the SRI for CY 2019 and other personal benefits granted to them in excess of the actual PS limitation.

6. Deficiencies amounting to ₱1,605,894.33 were noted in the completed infrastructure projects with contract cost of ₱15,306,404.13 contrary to the approved plans and specifications and to the disadvantage of the local government.

We recommended that the Municipal Engineer require the contractor to install and/or accomplish the items found to be non-existent in the projects and submit the noted lacking documents to the Audit Team for further evaluation. Then, apprise the Audit Team of any installation made in compliance with this audit recommendation.

7. The contract cost and Approved Budget for the Contract (ABC) of the project Design, Build and Supply of -20°C Cold Storage Facilities and Equipment amounting to ₱1,964,000.00 and ₱1,966,500.00, respectively, were found to be higher than the COA allowable cost of ₱1,210,586.47 due to non-submission of documents supporting the ABC contrary to DPWH Department Order No. 72 dated October 5, 2012. Moreover, 67.62% or ₱1,328,127.67 of the total works could not be verified due to lack of design specifications, therefore, the verified accomplishment was only 32.38% or ₱635,872.33 contrary to the submitted Statement of Work Accomplished (SWA). Further, the project was not operational upon inspection thus defeating the purpose for which it was built.

We recommended that the Municipal Mayor (a) require the Municipal Engineer to explain/justify the higher ABC and contract amount over the cost estimate per audit for the project Design, Build and Supply of -20°C Cold Storage Facilities and Equipment and to submit to the Audit Team for further evaluation the Detailed Breakdown of ABC, complete set of plans and drawings, variation order and design specifications for the 67.62% of the total works and the documents supporting the request for time extension; (b) require the Bids and Awards

Committee (BAC) to explain/justify the observations on quorum, arithmetical error, similar amounts and the same date of Program of Work (POW) preparation and bidding activity; and (c) explain/justify why the project has not been utilized and non-operational for years since its completion and apprise the Audit Team of its current operational status.

8. Six infrastructure projects with contract cost of ₱11,083,812.29 were awarded to contractors whose submitted technical and financial documents have error or deficiencies thereby casting doubt to the propriety of the post-qualification conducted by the BAC contrary to Section 34, Rule X of the Revised IRR of R.A. No. 9184.

We recommended that the Municipal Mayor require the BAC to justify the post-qualification adjudged to the Lowest Calculated Bid (LCB) despite the noted discrepancies and deficiencies in the submitted bidding documents. Also, require the BAC to provide the noted lacking documents and henceforth ensure that the contracts are perfected and submitted on time.

9. Documentary deficiencies were noted in the disbursements made totaling ₱3,227,733.36 contrary to Item 9.1.1 of COA Circular No. 2012-001 dated June 14, 2012 and the 2016 Revised IRR of R.A. No. 9184 thereby casting doubt to the regularity and propriety of payments. Also, eight infrastructure projects with total contract cost of ₱10,609,831.14 were not covered with warranty security as required by Section 62.2.3 of the same revised IRR thus, the responsibility of the contractor for structural defects and failures were not guaranteed to the disadvantage of the municipal government.

We recommended that the Municipal Mayor (a) require the Municipal Engineer to submit the lacking documents for the completed projects and ensure strict compliance with Section 62 of the 2016 Revised IRR of R.A. No. 9184; and (b) instruct the Municipal Accountant that henceforth, each voucher must have complete supporting documents prior to processing of claims in compliance with COA Circular No. 2012-001 and Section 4(6) of P.D. No. 1445.

10. The municipality's 10-Year Solid Waste Management (SWM) Plan was not yet approved by the National Solid Waste Management Commission (NSWMC) contrary to Section 16 of R.A. No. 9003 thus, the incorporated programs may not be in accord with National Solid Waste Management Framework. Moreover, they failed to secure Environment Compliance Certificate (ECC) from the Department of Environment and Natural Resources (DENR) for the site of sanitary landfill. Further, the said landfill was not monitored, maintained and operated properly thereby now becoming an open dumpsite contrary to Sections 37 of the same Act.

We recommended that the Municipal Mayor, who also heads the Municipal Solid Waste Board, to (a) follow up the approval of the NSWMC to the municipality's 10-Year SWM Plan; (b) secure ECC from DENR for the waste disposal site; and

(c) undertake necessary actions to prevent the open dumpsite from further becoming an uncontrolled open dumpsite.

Summary of total Suspensions, Disallowances and Charges

The Statement of Audit Suspensions, Disallowances and Charges (SASDC) served to the Municipality of Romblon as at December 31, 2019 has a balance of ₱17,776,541.12.

Status of Implementation of Prior Year's Audit Recommendations

Out of the 16 audit recommendations contained in the Annual Audit Report of the Municipality of Romblon for the year ended December 31, 2018, four were fully implemented, eight were partially implemented and four were not implemented.