

## EXECUTIVE SUMMARY

### Introduction

The Municipality of San Fernando is classified as a 4<sup>th</sup> class municipality. It regained its political status as a municipality on January 1, 1947 by virtue of Republic Act No. 38. The municipal government continues to pursue its commitments to its constituents. It has a primary goal of providing basic services and facilities to the populace of the municipality.

### Financial Highlights

The municipality generated a surplus of ₱17,440,708 for CY 2019, lower by ₱4,111,775 or 19% compared with last year's surplus of ₱21,552,483. The Internal Revenue Allotment of ₱103,416,276 represents 95% of the total revenue.

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	₱260,775,526	₱246,476,613	₱ 14,298,913
Total Liabilities	39,861,291	46,506,797	(6,645,506)
Total Equity	220,914,235	199,969,816	20,944,419
Total Income	109,039,673	99,541,397	9,498,276
Total Expenses	91,598,965	77,988,914	13,610,051

### Scope of Audit

The Audit Team conducted financial and compliance audits on the accounts and operations of the Municipality of San Fernando 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 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 Property, Plant and Equipment (PPE) is carried in the statement of financial position at ₱163,900,961.79 as at December 31, 2019. There were three completed infrastructure projects, however, that the municipality has not recognized in the books amounting to ₱35,357,610.57 which constitutes a departure from PPSAS 17. This resulted in the understatement of PPE and government equity by the same amount as at December 31, 2019.
2. The Due to National Government Agencies (NGAs) and Other Payables accounts are carried in the statement of financial position at ₱12,666,907.00 and negative ₱2,740,065.78 (non-current), respectively, as at December 31, 2019. Besides from the unreliable negative balance of the latter account, the municipality has recorded the receipt and disbursement of funds from the NGAs under the latter account instead of the former which constitutes a departure from PPSAS 1. Consequently, both accounts were misstated by ₱3,440,154.22 as at December 31, 2019.

## **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 all completed PPEs are recognized in the books consistent with the PPSAS 17 and all fund transfers from NGAs with attached obligation are recorded under Due to NGAs account consistent with PPSAS 1 and the Revised Chart of Accounts for local government units (LGUs).

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

1. Cash in Bank - Local Currency of ₱78,957,169.80 as at December 31, 2019 could not be ascertained as to accuracy and reliability due to non-preparation of Bank Reconciliation Statement (BRS) contrary to Section 74 of Presidential Decree No. 1445.

We recommended that the Municipal Mayor enjoin the depository banks to furnish the municipality of bank statements regularly and promptly. Make sure that it is done in writing, duly received by the bank and filed for documentation. Also, instruct the Municipal Accountant to exert more effort in accomplishing BRS and make sure that all book reconciling items are traced and reflected in the books. Lastly, instruct the Municipal Treasurer to see to it that her cashbook is updated and complete.

2. Only ₱676,286.26 or 5.18% of the total Real Property Tax (RPT) and Special Education Tax (SET) Receivables of ₱13,048,384.91 was collected during the year, inconsistent with Section 247 of Republic Act No. 7160 thereby depriving the municipality of huge income for basic services. Moreover, RPT and SET Receivables of ₱12,372,098.65 as at year-end does not tally with the List of all Real Property Tax Delinquencies of ₱3,511,935.84 and with its reciprocal account Deferred RPT and SET of ₱12,453,906.08, inconsistent with Section 27 of Philippine Public Sector Accounting Standards (PPSAS) 1 - Presentation of the Financial Statements. Lastly, the municipality had not conducted tax mapping in compliance with Section 472(b)(5) of the same Act hence, the reports on which the receivables were based had been incomplete and outdated.

We recommended that the Municipal Mayor (*a*) instruct the Acting 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 Acting Municipal Treasurer and Accountant to reconcile their records and present the correct amount of tax delinquencies; (*c*) instruct the Municipal Accountant to reconcile the year-end balances of RPT and SET Receivables and Deferred RPT and SET accounts; and (*d*) direct the Acting 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.

3. The submitted Report on the Physical Count of Inventory (RPCI) does not reflect the quantity of the items per count thereby casting doubt to the occurrence of physical count contrary to Section 56 and Annex 48 of the Manual on the New Government Accounting System (MNGAS) for Local Government Units (LGUs), Volume II. Therefore, the Inventory accounts of ₱655,493.62 as at December 31, 2019 was not ascertained as to existence, completeness and valuation. Moreover, the RPCI was submitted late contrary to Section 124 of the same Manual.

We recommended that the Municipal Mayor (*a*) create an Inventory Committee for the conduct of semestral physical count of all inventories and instruct the said Committee to ensure that all pertinent columns of the RPCI are filled up; and (*b*) instruct the said Committee and the Municipal Accountant to reconcile the result of the count to books and submit them to the Audit Team on time.

4. PPE accounts with book value of ₱53,507,402.55 as at December 31, 2019 were not provided with depreciation contrary to Paragraphs 4 and 5 of Philippine Public Sector Accounting Standard (PPSAS) 17, resulting in understatement of expense and overstatement of asset and net income. Moreover, we noted deficiencies in the submitted Report on Physical Count of PPE (RPCPPE) contrary to Section 124 of the Manual on the New Government Accounting System (MNGAS) for Local Government Units (LGUs), Volume I and discrepancies between the balances in financial statements (FS) and subsidiary

ledgers (SL) inconsistent with Section 27 of PPSAS 1 - Presentation of the FS, thereby rendering the account balances unreliable.

We recommended that the Municipal Mayor (*a*) require the Municipal Engineer to determine the useful life of the infrastructure assets and the Municipal Accountant to provide depreciation for the said accounts; (*b*) create an Inventory Committee for the conduct of annual physical count and the submission of properly accomplished RPCPPE; and (*c*) require the Municipal Accountant to update and reconcile the subsidiary ledgers with the GL and FS balances.

5. The Due to National Government Agencies (NGAs) account balance of ₱12,666,907.00 as at December 31, 2019 includes items that do not share the nature of a fund transfer contrary to Paragraph 7 of the International Public Sector Accounting Standards (IPSAS) 1 – Presentation of Financial Statements and Revised Chart of Accounts for local government units (LGUs) per COA Circular No. 2015-009 dated December 1, 2015.

We recommended that the Municipal Mayor instruct the Municipal Accountant to make sure that the SLs are detailed and complete and identify under which account the amount of ₱22,018.88 is appropriate to be recorded.

6. The Other Payables account balance of ₱(2,740,065.78) was unreliable because of disparity between the balance per general ledger (GL) and per subsidiary ledger (SL) contrary to Section 111 of Presidential Decree No. 1445.

We recommended that the Municipal Mayor instruct the Municipal Accountant to make sure that the SLs are detailed, complete and reconciled with the GL accounts.

7. Traveling expenses totaling ₱225,146.43 were paid without official receipts for transportation cost and exceeded the allowable amount for Daily Travel Expenses (DTE) caused by the leniency accorded during processing of claims contrary to Section 5 of Executive Order No. 77 dated March 15, 2019 and Section 4(6) of Presidential Decree No. 1445, thereby resulting in excessive payment of claims.

We recommended that the Municipal Mayor require the municipal officials and employees to refund the traveling expenses paid to them in excess of the allowed amount and instruct the Municipal Accountant that henceforth ensure that the claims against government funds are allowed, proper and documented.

8. Documentary deficiencies were noted in the disbursements made totaling ₱9,809,224.39 contrary to Item 9.1.1 of COA Circular No. 2012-001 dated June 14, 2012 and the 2016 Revised Implementing Rules and Regulations (IRR) of Republic Act No. 9184 thereby casting doubt on the regularity and propriety of payments. Also, four infrastructure projects with total contract cost of ₱37,357,560.74 were not covered with warranty security as required by Section

62.2.3 of the revised IRR of the same Act 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 immediately the lacking documents enumerated in Annex E; and (*b*) instruct the Municipal Accountant that henceforth, every voucher must have a complete supporting documents prior to processing of claims.

9. Programs, projects and activities (PPAs) totaling ₱2,200,000.00 were charged under the 20% Development Fund despite being not squarely fit to the menu of allowable development projects provided under Item 3 of DILG-DBM Joint Memorandum Circular (JMC) No. 2017-1 dated February 22, 2017 thereby defeating the purpose for which the fund was established. Moreover, PPAs totaling ₱3,200,000.00 were not implemented during the year thus the benefits that could be derived therefrom did not redound to the constituents. Lastly, there were seven implemented PPAs that were not reflected in the quarterly Report on Government PPAs contrary to COA Circular No. 2013-004 dated January 30, 2013.

We recommended that the Municipal Mayor (*a*) require the MPDC to justify/explain the inclusion of projects that do not squarely fit to the menu provided by Item 3 of DILG-DBM JMC No. 2017-1 and the non-implementation of the development projects; and (*b*) instruct the Municipal Engineer to fast track the implementation of development projects and to disclose them in the quarterly Report of Government PPAs for submission to the Audit Team in compliance with Item 2 of COA Circular No. 2013-004.

### **Summary of total Suspensions, Disallowances and Charges**

The Statement of Audit Suspensions, Disallowances and Charges (SASDC) served to the Municipality of San Fernando as at December 31, 2019 has a balance of ₱13,754,010.45.

### **Status of Implementation of Prior Year's Audit Recommendations**

Out of the 11 audit recommendations contained in the Annual Audit Report of the Municipality of San Fernando for the year ended December 31, 2018, three were fully implemented and eight were partially implemented.