

## **EXECUTIVE SUMMARY**

### **Introduction**

The Municipality of Oras is a 3<sup>rd</sup> class municipality located in the northern part of the province of Eastern Samar. It was created by virtue of a Royal Order issued in 1850. It is the center of trade and commerce in the northern municipalities and its barangays crossing along the Oras River.

The Municipality is under the leadership of Mayor Roy C. Ador and Vice Mayor Adolfo A. Mugas. It has 42 barangays and serves primarily as a general-purpose government for the coordination and delivery of basic, regular, and direct services and effective governance of the constituents within its territorial jurisdiction.

The LGU envisioned to be the premiere center for agriculture, education, health, trade, and commerce of the Northern part of Eastern Samar, with God-fearing, morally upright, empowered, productive, gender responsive, and disaster resilient citizenry, who live in a peaceful and balanced environment with well protected natural resources and adequate structures to meet the needs of the people in a globally competitive economy under decent proactive and committed leaders.

The LGU's mission is to ensure sustained human development thru people empowerment and delivery of actual felt needs of the society.

An audit was conducted on the accounts of the Municipality covering the period January 1 to December 31, 2022. The audit was aimed to ascertain the propriety and validity of disbursements and receipts, and to obtain reasonable assurance about whether the financial statements are free from material misstatements. The audit consisted of post-audit of transactions, review of operating procedures, interview with concerned municipal officials and employees, verification and analysis of accounts, and such other procedures considered necessary under the circumstances. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

## Financial Highlights

The Municipality's total assets, liabilities, equity, income and expenses for the current and previous year are as follows:

Particulars	2022	2021	Increase (Decrease)	
			Amount	%
Assets	₱322,152,578.55	₱240,525,179.29	81,627,399.26	33.94
Liabilities	119,791,964.30	80,983,908.76	38,808,055.54	47.92
Equity	202,360,614.25	159,541,270.53	42,819,343.72	26.84
Income	229,008,204.03	154,588,761.05	74,419,442.98	48.14
Expenses	187,537,122.94	172,371,000.59	15,166,122.35	8.80

## Expenditure

Expenditures incurred out of current appropriation and those of last year are as follows:

Particulars	2022	2021	Increase (Decrease)	
			Amount	%
Personal Services	₱75,915,498.62	₱69,008,567.91	6,906,930.71	10.01
MOOE	92,009,573.83	90,650,692.56	1,358,881.27	1.50
Capital Outlay	92,210,751.05	36,982,461.02	55,228,290.03	149.34
Financial Expenses	5,260.76	2,713.63	2,547.13	93.86

## Independent Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the combined financial statements of the Municipal Government of Oras, Eastern Samar for the year ended December 31, 2022 due to the exceptions as stated in the Independent Auditor's Report and as discussed in Part II of the report.

## Summary of Significant Observations and Recommendations

1. The valuation, accuracy, and existence of the Property, Plant and Equipment (PPE) account balance of ₱274,834,165.27 were unreliable due to: (a) incorrect computation of depreciation expense; (b) improper classification of intangible assets as PPE; (c) erroneous recording of progress billings and improper recognition of Buildings account for the in-progress project; and (d) non-reconciliation of Report on Physical Count of Property, Plant and Equipment (RPCPPE) and the reported PPE account

balance in the financial statements, contrary to pertinent rules and regulations, thereby affected the fair presentation of the account in the financial statements.

**We recommended that:**

**a. The Municipal Accountant –**

- i. Exert effort to trace back details of PPE acquisitions, recompute the accumulated depreciation of the CY 2022 reported balance of depreciable assets, on a per item basis, using the formula for straight line method of depreciation, and effect the necessary adjustments after determination of the correct amount, for the proper valuation of the PPE;**
- ii. Reclassify the intangible assets to the proper account; and**
- iii. Maintain PPE ledger cards/subsidiary records for items of PPE and coordinate with the GSO and Inventory Committee for the identification of recorded assets that were not accounted in the RPCPPE. Undertake reconciliation of records, to accurately and reliably present the PPE accounts in the financial statements.**

**b. The GSO –**

- i. Compare existing records with the Municipal Accountant for tracing/identification of PPE which were not accounted in the RPCPPE, and reconcile PPE items and their balances between the accounting and property records; and**
- ii. Prepare and maintain Property Cards.**

**c. The Chairperson of the Inventory Committee –**

- i. Include real properties in the physical count of PPE; and**
- ii. Communicate to the Municipal Accountant and GSO the result of the physical count of PPE to update their respective records.**

**We further recommended that management conduct a One-Time Cleansing of PPE Account Balances, following the guidelines and procedures set forth in COA Circular No. 2020-006 dated January 31, 2020, to address the problem of unidentified PPE items in the accounting records and discrepancies in PPE account balances, which have become a perennial issue and caused the non-establishment of the accuracy of the PPE balances presented in the financial statements.**

2. The CY 2022 Cash and Cash Equivalents account balance of ₱36,833,225.34 was understated, due to the non-reversion of stale checks amounting to ₱41,527.12 and non-adjustment of unreleased checks by approximately ₱13,327,884.95 at year-end, contrary to IPSAS 1, Section 97 of PD No. 1445 and Section 59 of the NGAS Manual for LGUs, thereby affected the fair presentation of the account in the financial statements.

**We recommended that:**

- a. **The Municipal Accountant record adjustments for the reversion of stale checks and restoration of unreleased checks at the end of the year to the cash account, to fairly present the balances of the Cash and Payable accounts at year end.**
- b. **The Municipal Treasurer –**
  - i. **Send written notices to the payees at least one month before checks become stale;**
  - ii. **Maintain a logbook for the release of checks, for proper monitoring; and**
  - iii. **Prepare a list of unreleased checks at year end, and furnish the Municipal Accountant, to serve as her basis for drawing adjustments.**
3. The disbursements in the Trust Fund were not properly regulated, and obligations were still incurred despite unavailability of cash, resulting in a cash overdraft of ₱968,426.30, contrary to Sections 305 and 337 of RA No. 7160 and Section 4 of PD No. 1445, and thus, may affect the delivery of services, and risks of legal suits for unpaid obligations.

**We recommended that:**

- a. **The Municipal Treasurer –**
  - i. **Immediately cause the transfer of funds due to the TF from the GF;**
  - ii. **Always monitor the cash in bank balances for all Funds; and**
  - iii. **Stop certifying as to the availability of funds, and refrain from drawing checks, if such funds intended for the purpose are not yet transferred to its proper bank account.**
- b. **The Municipal Accountant –**
  - i. **Prepare the bank reconciliation statements monthly, in order to regularly monitor the cash in bank balances and regulate disbursements; and**

**ii. Make the necessary adjustments in the books, upon verification of the deficiencies noted.**

4. The accounts Interest Payable and Other Payables amounting to ₱0.00 and ₱61,037.50 at year-end were understated by ₱270,317.96, and ₱2,703.18, representing the unrecognized Accrued interest and Gross Receipt Tax (GRT), respectively, for the period December 15 to 31, 2022, and consequently understated the Construction in Progress – Infrastructure Assets for the unrecognized borrowing cost totaling ₱273,317.96, contrary to Section 4 of the New Government Accounting System (NGAS) Manual for LGUs and International Public Sector Accounting Standard (IPSAS) 5.

**We recommended that the Municipal Accountant record the accrued interest and the passed-on GRT incurred for December 15 to 31, 2022 from the loan at LBP, and recognize the borrowing costs at the end of the year to fairly present the balances of the accounts in the financial statements.**

5. The Municipality reported a negative balance of Government Equity account in the Trust Fund amounting to ₱146,558.64, due to the erroneous recording of transactions, and thus, rendered the financial statements inaccurate and unreliable, contrary to International IPSAS 1, Sections 3 and 66 of PD No. 1445, and COA Circular No. 2016-004.

**We recommended that the Municipal Accountant revisit the Trust Fund books to determine the transactions that brought about the Government Equity balance, and effect the necessary adjustments. Henceforth, observe the proper recording of transactions in the Trust Fund books, and the preparation of its financial statements.**

6. The CY 2022 Statement of Comparison of Budget and Actual Amounts (SCBAA) was not submitted for audit, contrary to IPSAS 1, thus, the legality and validity of the disbursements and the related savings thereof could not be verified, thereby, affected the reliability of the information made available to the stakeholders/users of the financial statements, and deprived them of relevant information to facilitate better understanding of the Municipality's financial performance.

**We recommended that the Municipal Accountant submit the CY 2022 SCBAA to COA, and henceforth, observe the timely submission of the complete set of financial statements for audit.**

7. The Municipal Accountant was precluded from setting-up Real Property Tax (RPT) Receivable and Special Education Tax (SET) Receivable at the beginning of each year due to the failure of the Municipal Treasurer to prepare and furnish the certified list of taxpayers with the amounts due and collectible, contrary to Section 246, Chapter 6 of RA No. 7160 and Section 20 of the NGAS Manual for LGUs, thus, tax collections and

delinquencies were not adequately monitored and receivables for the year were understated.

**We recommended that the Municipal Treasurer prepare a duly certified list showing the taxpayers and amounts due and collectible and submit the same to the Municipal Accountant at the beginning of the year, to serve as the basis for setting up the RPT and SET Receivables in the books.**

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

The audit suspensions and disallowances as of December 31, 2022 amounted to ₱5,304,983.55 and ₱7,053,835.12, respectively.

No Notice of Charge (NC) had been issued to the Municipality.

### **Status of Implementation of Prior Years' Unimplemented Audit Recommendations**

Of the 36 audit recommendations embodied in CY 2021 and prior years' Annual Audit Reports, 21 were fully implemented and 15 were not acted upon by management.