

Executive Summary

A. Introduction

The Municipality of Quezon was established in 1902 situated at Brgy. II, Quezon, Nueva Ecija. It has a total land area of 6,937 hectares of which 84.72% is devoted to agricultural uses. It is politically subdivided into 16 barangays. The Municipality is currently a fourth class of its kind.

For calendar year 2018, Mayor Mariano Cristino N. Joson, together with the whole Sangguniang Bayan headed by Vice Mayor Mariano Noriel M. Joson had continuously pursuit their goals and objectives of immediate delivery of basic services to its constituents through proper implementation of various development programs and projects. The conscious and combined effort of all the officials concerned seemingly brought about more services that have been utilized and programs implemented such as providing financial assistance including health care benefits to the indigents, health and community programs, agricultural, livelihood and more importantly infrastructure projects which truly provide convenience to the residents and the public.

B. Scope of Audit

The audit covered the financial transactions and operations, on a sampling basis, of the Municipality of Quezon, Province of Nueva Ecija for the year ended December 31, 2018, particularly on the audit focus and thrust contained in the Memorandum dated July 09, 2018 of the Assistant Commissioner for Local Government Sector. The significant observations noted in the conduct of audit are discussed in Part II of this report.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and we believe that it provided a reasonable basis for the audit results. The objectives of the audit were to (a) verify the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

C. Financial Highlights

The Municipality's comparative presentation of financial condition, results of operations and sources and application of funds for CY 2018 with comparative figures for CY 2017 are shown in the next page.

Particulars	2018	2017	Increase/ (Decrease)
Financial Condition			
Assets	₱143,607,449.77	₱149,881,213.40	₱(6,273,763.63)

Particulars	2018	2017	Increase/ (Decrease)
Liabilities	79,749,363.83	88,604,436.35	(8,855,072.52)
Equity	63,858,085.94	61,276,777.05	2,581,308.89
Results of Operations			
Income	129,792,152.48	111,414,154.69	18,377,997.79
Expenses	124,455,509.21	110,329,015.33	14,126,493.88
Surplus (Deficit)	4,361,713.27	15,369,830.60	(11,008,117.33)
Sources and Applications of Funds			
Appropriation	141,303,957.63	139,086,709.71	2,217,247.92
Allotment	141,303,957.63	139,086,709.71	2,217,247.92
Obligation	115,727,838.90	103,666,601.09	12,061,237.81
Balance	25,576,118.73	35,420,108.62	(9,843,989.89)

D. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements for the year ended December 31, 2018 because of significant errors noted in the audit of accounts, such as (a) unreliable balances of Real Property Tax (RPT) and Special Education Tax (SET) accounts amounting to ₱15,778,288.62 because of incorrect basis in the setting up of the said receivables at every beginning of the year; (b) failure to accrue to a special trust fund the unexpended balances of Local Disaster Risk Reduction Management Fund (LDRRMF) amounting to ₱10,941,522.50 in CY 2018 thus understating the liability and overstating the government equity accounts of the Municipality by the same amount; (c) doubtful validity and correctness of the reported liability accounts of the Municipality amounting to ₱23,252,418.18 due to various deficiencies noted in audit; (d) unreliable balance of property, plant and equipment amounting to ₱88,427,364.75 due to discrepancy between general and subsidiary ledgers balances, abnormal balance and other various deficiencies noted in audit such as failure to conduct required annual physical count, non-submission of Report on Physical Count of PPE (RPCPPE) and non-maintenance of property cards and records; and (e) unsubmitted accounts such as official receipts, disbursement vouchers and payroll of ₱36,357,264.44 as of February 15, 2019.

With the above noted observation, we recommended the following:

On Unreliable balance of RPT/SET receivable accounts:

(a) We recommended that the Local Chief Executive instructs the (a) Municipal Treasurer to update the RPTAR and submit a duly certified list showing the name of taxpayers and the amount due and collectible for the year to the Accounting Unit to be used as basis in setting up of RPT/SET receivable as required by Section 20 of Manual on NGAS for LGUs; and (b) Municipal Accountant to use the Certified List of Taxpayers

and Tax Due as the basis in recording the RPT/SET receivables at the beginning of the year.

On Local Disaster Risk Reduction Management Fund:

(b) We recommended that Management establish effective measures to improve cash position in order to transfer unexpended balances of Local Disaster Risk Reduction Fund to a special trust fund to ensure its availability during times of disaster/calamity.

On Liability accounts:

(c) We recommended that the Local Chief Executive instruct the OIC-Municipal Accountant to (a) investigate the occurrence of negative/debit balances in the liability accounts and make the necessary adjustments in the books; and (b) refund to source agency or remit to Bureau of Treasury the unexpended balances of transferred funds/completed projects as prescribed by COA Circular No. 94-013 dated December 13, 1994.

On Doubtful balances of PPE accounts:

(d) We recommended that the Local Chief Executive (a) instruct the OIC-Municipal Accountant to (i) reconcile the discrepancy between the General and Subsidiary Ledger balances of PPE accounts; and (ii) adjust the overstated depreciation of Other PPE account; (b) create an Inventory Committee who will conduct physical count of properties of the Municipality and will prepare the Report on Physical Count of Plant, Property and Equipment (RCPPE); and (c) instruct Municipal Treasurer to maintain property cards and other records such as Property Acknowledgement Receipts and inventory tags; and

On delayed submission of accounts:

(e) We reiterated our prior years' recommendations that the Local Chief Executive instruct the OIC-Municipal Treasurer and OIC-Municipal Accountant to (a) make concerted effort to determine the causes of delay in the submission of accounts and plan and establish an effective measure on how to resolve it; and (b) expedite the submission of still unsubmitted accounts such as the official receipts, disbursement vouchers, payrolls, trial balance and supporting schedules to the Office of the Auditor.

E. Other Significant Audit Observations and Recommendations

Summarized below are the other significant audit observations with their recommendations, the details of which are presented in Part II of this report. Management views and comments were incorporated in the report, where appropriate.

1. The cash balance of the Municipality as of December 31, 2018 is insufficient or deficit by ₱17,573,375.93 to cover total trust liabilities as of the same period because trust liabilities of prior years were used to purposes other than as intended in violation of Section 305 (e) and Section 337 of Republic Act No. 7160. **(Observation No. 6)**

We recommended that the municipal officials continue to administer the funds properly and to continue to limit expenditures to the essential operating needs of the municipality in order to further reduce and eventually eliminate cash deficit.

2. The Municipality was able to comply with the appropriation of no less than 20% of the Internal Revenue Allotment (IRA) for development projects during CY 2018, however, some lapses were noted such as (a) ineligible expenditure items amounting to ₱3,416,237.22 were charged against the Development Fund; and (b) five (5) projects amounting to ₱5,676,240.62 were included in the budget but not implemented during the year. **(Observation No. 9)**

We recommended that the Local Chief Executive and the Municipal Planning and Development Officer (a) refrain from including expenditure items that are not allowed to be charged against the Development Fund (DF); and (b) optimally utilize budget for Development Fund.

3. The Municipality could have provided more projects had they maximized the utilization of budget for Special Education Fund (SEF) with unutilized balance of ₱913,274.83 as of the end of CY 2018 while Quarterly and Annual Reports on SEF Utilization were not submitted to DepEd and DBM in violation of Section 6.0 of DepEd, DBM, and DILG Joint Circular No. 1, s. 2017, dated January 19, 2017. **(Observation No. 10)**

We recommended that the Local Chief Executive and the Local School Board (LSB) (a) judiciously prepare SEF budget according to the needs of the stakeholders and consider the reprogramming/realignment of unutilized funds so that more projects could be implemented by the Municipality for the benefits of the intended users; and (b) comply with the reportorial requirements of DepEd, DBM and DILG Joint Circular No. 1, s. 2017, dated January 19, 2017.

4. Nine (9) projects amounting to ₱2,548,678.13 which were included in the CY 2018 Budget for Local Disaster Risk Reduction and Management Fund (LDRRMF) remained unimplemented as of year-end while Management failed to submit the Monthly and Annual Report on the Utilization of the LDRRMF to concerned agencies in violation of Section 7.0 of National Disaster Risk Reduction Management Council, Department of Budget and Management (DBM), and Department of Interior and Local Government (DILG) Joint Memorandum Circular (JMC) No. 2013-1. **(Observation No. 11)**

We recommended that the Local Chief Executive and the LDRRMO (a) strictly monitor the implementation of all program/projects/activities in the LDRRMP in order to strengthen the disaster and mitigation measures of the Municipality which will be beneficial in times of calamities; and (b) comply with the reportorial requirements of JMC No. 2013-1 dated March 25, 2013.

5. The Municipality has substantially complied with the provisions of Republic Act No. 9003 or the Ecological Solid Waste Management Act of 2000 except that the Municipality still has no existing Municipal Material Recovery Facility (MRF) and no composting and recycling activities which could have further contribute to the total protection of the environment and general welfare of the constituents. (*Observation No. 12*)

We recommended that the Municipal Solid Waste Management Board (MSWMB) consider prioritizing the establishment of Municipal MRF and purchase of recycling and composting equipment as stated in the Ten-Year Solid Waste Management of the Municipality in order to further contribute in the total protection of the environment and general welfare of the constituents.

6. The Municipal Treasurer's Office failed to implement the examination of the books of accounts to determine correct business taxes of selected sample taxpayers causing undetected under declaration of gross receipts used as the basis in the computation of taxes due the Municipal Government, inconsistent with Section 171 of Republic Act (RA) 7160 which resulted to under collection of business tax by ₱9,313.98 while the Licensing Office failed to enforce the submission of Sworn Statement of Gross Receipts or Sales and Certified Copy of Income Tax Return to verify or assess the correct tax base to be used contrary to Section 2C.04 (d) and (e) of the Revised Revenue Code of the Municipality of Quezon, Nueva Ecija. (*Observation No. 13*)

We recommended that the Local Chief Executive (a) instruct the Municipal Treasurer's Office to regularly conduct examination on the books of accounts of business establishments to determine the truthfulness of the declared gross sales/receipts used in the computation of business taxes paid and to collect the correct taxes as provided under Section 171 of R.A. 7160; (b) assign personnel at the Municipal Treasurer's Office who are equip with the necessary knowledge and training in the examination of books of accounts to enable said Office in carrying on with their mandate efficiently; and (c) instruct the Business Permit and Licensing Officer to require taxpayers to submit Sworn Statement of Gross Receipts or Sales and Certified Copy of Income Tax Return to verify or assess the correct tax base to be used as provided by Section 2C.04 (d) and (e) of the Revised Revenue Code of the Municipality of Quezon, Nueva Ecija.

7. The Municipality budgeted and expended the amount of ₱8,351,880.00 and ₱8,555,681.36 respectively for Gender and Development (GAD) programs/projects/activities (PPAs). However, there were inclusions of PPAs in the

GAD Plan/Budget and Accomplishment Report for CY 2018 which do not address gender issues thus is not congruent with Section 4 (h) of R.A. 9710 or the Magna Carta of Women and non-implementation of thirty-seven PPAs amounting to ₱3,470,690.00. ***(Observation No. 14)***

We recommended that the Local Chief Executive direct the Executive Committee of GAD Focal Point System (GFPS) to (a) ensure the implementation of GAD programs and activities in accordance with approved GAD plans and budget and (b) refrain from including programs which cannot be identified with GAD.

E. Status of Suspensions, Disallowances and Charges and Settlements

As of December 31, 2018, suspensions have a balance of ₱40,250,000.00 while disallowances and charges had zero balance.

F. Status of Implementation of Prior Year's Unimplemented Audit Recommendations

Monitoring and evaluation of management action on the 27 recommendations contained in the CY 2017 Annual Audit Report revealed that nine recommendations were fully implemented, three were partially implemented and 15 were not implemented.