

EXECUTIVE SUMMARY

A. Introduction

1. The Municipality of Pilar is a fifth class municipality in Siargao Island in the province of Surigao del Norte, Philippines. It is bounded by the Municipality of San Isidro to the north, Municipality of Del Carmen to the west, Municipality of Dapa to the South and Philippine Sea to the east. The Municipality is relatively an infant municipality. It is used to be a barrio of Dapa until its creation as a separate municipality on October 31, 1953 by virtue of Executive Order No. 638 issued by then President Elpidio Quirino. It is composed of 15 barangays with a total land area of 8,050.60 hectares.

2. The audit was conducted in accordance with applicable legal and regulatory requirements, and the Philippine Public Sector Standards on Auditing. Those standards require that we plan and perform the audit to obtain a reasonable basis for our conclusions.

3. The audit covered the accounts and operations of the municipal government for the year 2017 and was aimed at ascertaining the propriety of financial transactions, management's compliance to prescribed rules and regulations and the fairness of the presentation of the financial statements. Performance Audit was also conducted on the selection and implementation of projects funded out of the 20% development fund, Local Disaster Risk Reduction and Management Fund, Solid Waste Management and Trust Fund, with the objective to determine whether the purposes of the projects were attained in the most efficient, effective and economical manner.

B. Financial Highlights

a) Financial Position and Results of Operations

Particulars	<u>2018</u>	<u>2017</u>
Assets	214,571,222.38	149,324,918.80
Liabilities	79,600,693.03	75,653,908.95
Government Equity	134,970,529.35	73,671,009.85
Income	65,715,482.31	57,324,499.70
Expenses	44,874,132.82	42,624,688.30
Net Income	23,275,257.95	14,689,811.40

b) Sources and Applications of Funds

Particulars	2018	2017
Appropriations	72,552,000.00	55,900,000.00
Allotment	72,552,000.00	55,900,000.00
Obligations	45,109,707.43	44,453,667.56
Funds received to other agencies	-	-
Funds received to NGOs/POs	-	-

Particulars	2018	2017
Funds transferred to other agencies	-	-
Funds transferred to NGOs/POs	-	-

C. Audit Opinion

4. The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of Pilar for CY 2018 because of the following reasons:

- i. The Property, Plant and Equipment (PPE) Accounts with a total amount of ₱113,706,996.28 as of December 31, 2018 are of doubtful validity and accuracy due to the absence of records and the Municipality's continued failure to conduct physical inventory of its property, in violation of relevant provisions of the New Government Accounting System (NGAS) Manual for LGU, Volume I.
- ii. The Municipality failed to record in the books of accounts the unused portion of the employees earned leave credits totaling P8,614,443.13 as of December 31, 2018 contrary to Paragraph 11 of the Philippine Accountings Standards (PAS) 19 and no fund was ever set-up for the same thereby may affect the timely and expeditious release of the retirement pay and other benefits of all retiring employees of the Municipality as required in Section 1 of Republic Act No. 101541.

D. Summary of Significant Observations and Recommendations

5. For the above-mentioned audit observations which have caused the issuance of a qualified opinion, we recommended the following:

- i. We recommended and Management agreed to create an inventory committee who shall perform physical inventory of all the properties of the municipality and to prepare and submit to the Audit Team the Report on Physical Count of PPE (RPCPPE) pursuant to Section 124 of NGAS Manual for LGU; instruct the Municipal Accountant to maintain and update Inventories and PPE Ledger Cards for each category of inventory and PPE and to reconcile balances thereof with that of the GSO records; and adhere to the provisions on property management set forth in Sections 119, 120 and 124 of the NGAS Manual, Volume 1 and other pertinent laws, rules and regulations.
- ii. We recommended that Management:
 - a. Instruct the Accounting Unit to prepare the adjusting journal entries as follows:

Dr:	Retained Earnings/(Deficit)	P8,614,443.13	
Cr:	Leave Benefits payable		P8,614,443.13

- b. From then on, require the HRMO in charge to submit to the Accounting Unit the periodic report on accumulated leave balances to facilitate the recognition of the cost of the compensated absences incurred for the current year.
 - c. Set up slowly the necessary funds for terminal leave benefits of employees by accruing the monthly actual earned leave benefits of its personnel.
 - d. Henceforth, instruct the Accounting Unit to periodically record in the books of accounts the compensated absences earned and ensure that funds is set up for the timely and expeditious release of the retirement pay in accordance with Paragraph 11 of the Philippine Accountings Standards (PAS) 19 and Section 1 of Republic Act No. 101541 respectively.
6. The other significant audit observations and recommendations are as follows:

- i. The Municipality of Pilar allowed several of its regular employees to receive a monthly net take home pay of less than P5,000.00 due to various loan deductions in violation of Section 47 of the General Appropriations Act (GAA) of FY 2018, thereby defeating the purpose of improving the compensation of personnel in the government service.

We recommended to the management to meticulously screen any loan application of its employees, especially those offered by financial institutions aside from the GSIS and PAG-IBIG to ensure that their net take home pay does not go below the required minimum take home pay provided by law.

- ii. All disbursement vouchers (DVs) and their supporting documents (SDs) were not stamped “PAID” and dated contrary to COA Circular No. 92-389 dated November 3, 1992.

We recommended to the Management to instruct the Cashier or the Municipal Treasurer that henceforth, all paid disbursement vouchers and its supporting documents be properly stamped “PAID” and dated as to payment to preclude double payment of the same transactions.

- iii. The Municipality of Pilar failed to impose liquidated damages amounting to P13,393.80 from the subsequent/final billings of the contractor despite delays in the completion of the project in violation of Section 8.1 and 8.3 of the Revised Implementing Rules and Regulations (IRR) Annex “E” of Republic

Act (RA) No. 9184, otherwise known as Government Procurement Reform Act.

We recommended and the Management agreed to collect the said amount of liquidated damages from the contractor and henceforth, instruct the Municipal Engineer to strictly monitor implementation of the projects to ensure whether these are completed as scheduled in order to properly determine the percentage of unfinished work, in cases where projects were not finished on time, which would serve as the basis in the computation of liquidated damages to be deducted in the subsequent/final billing of the contractor.

- iv. Total fund transfers amounting ₱10,543,220.17 from the General Fund to the 20% Development Fund (DF) was only 18.61% of the Internal Revenue Allotment (IRA) received by the Municipality for CY 2018 instead of ₱11,328,759.80 leaving a deficiency of ₱785,539.63 or 1.39% in contravention to Section 287 of Republic Act (RA) 7160, exposing the fund to be utilized other than its intended purpose.

We recommended and the Management agreed to instruct the Municipal Treasurer to transfer the amount of ₱785,539.63 from general fund to 20% DF account immediately in compliance with Section 287 of RA 7160 and also to avoid the risk of utilizing it other than its intended purpose.

- v. Financial assistance amounting to ₱314,500.00 charged to Gender and Development (GAD) fund does not clearly address any gender-related issue and concern contrary to the provisions of Section 36 of RA No. 9710 and PCW-DILG-DBM-NEDA Joint Memorandum Circular No. 2013-01, thus defeating the purpose for which the fund was appropriated and achieve gender equality and women's empowerment.

We recommended and the Management agreed to instruct the GAD Focal Point System to refrain from granting financial assistance to individuals in the GAD Plan and Budget without conducting appropriate gender analysis and/or gender assessment and ensure that the planned GAD programs and activities are truly gender-responsive.

- vi. The Municipality did not fully implement its disaster prevention, mitigation, preparedness plans and programs of the Local Disaster Risk Reduction and Management Fund (LDRRMF) defeating the objective of the fund which is to increase the performance of the LGU in responding without delay to any natural and man-made calamities.

We recommended that Management thoroughly examine and evaluate the activities to be included in its LDRRMF plan to ensure its attainability and full implementations towards an effective and efficient performance of the LGU in responding to any natural and man-made calamities.

- vii. Effective and efficient implementation of the Municipality's 10-year Solid Waste Management Plan (SWMP), as mandated under Republic Act (RA) No. 9003, could not be fully achieved due to the lapses observed in the SWM operations thereby affecting the attainment of a sustainable solid waste management system and achievement of a garbage-free and economically progressive community.

We recommended and the Management agreed to:

- a. Strictly monitor wastes stored in the Barangay MRFs and consistently implement segregation;
- b. Submit the safety closure and rehabilitation plan of the open dumpsite to the EMB Regional Office for review and evaluation;
- c. Provide sufficient funding not only from local sources of the LGU but also secure grants from other government agencies; and
- d. Enforce the collection system on fines and penalties of violators.

E. Summary of Total Suspensions, Disallowances, and Charges

7. Audit suspensions, disallowances and charges amounting to ₱1,024,056.22 and ₱514,850.53 and ₱251.00, respectively, remained unsettled as of December 20, 2018 contrary to Sections 5.4 and 7.1.1 of COA Circular No. 2009-006 dated September 15, 2009.

F. Statement on the quantity/number of recommendations implemented, partially implemented and not implemented for the current year.

8. Monitoring of the implementation of 22 recommendations contained in CY 2017 Annual Audit Report (AAR) revealed that twelve was fully implemented, nine were partially implemented and one were not implemented. On the other hand, eleven recommendations from CY 2016 AAR were partially implemented and six were not implemented. Further, six recommendations from CY 2015 AAR were partially implemented and four were not implemented. Finally, for CY 2014 AAR, five were partially implemented and six were not implemented to date.