

EXECUTIVE SUMMARY

A. Introduction

1. The Municipality of Claver was created by virtue of Executive Order No. 126 in 1959. It enjoys total independence in managing, deciding and planning its own administrative, fiscal and development affairs, pursuant to the program of local government with wide disposition of available resources.
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. Value for money was also conducted on the selection and implementation of projects to determine whether the objectives of the projects were attained in the most efficient, effective and economical manner.

B. Financial Highlights

a) Financial Position and Results of Operations

Particulars	2018	2017
Assets	1,684,864,206.18	1,328,138,394.77
Liabilities	235,306,062.08	276,484,027.47
Government Equity	1,449,558,144.10	1,051,654,367.30
Income	580,543,045.82	571,995,724.50
Expenses	253,493,738.52	236,607,792.08
Net Income	327,049,307.30	335,387,932.42

b) Comparison of Budget and Actual Amounts

Particulars	Budgeted Amounts			Difference Original and Final Budget 2018	Actual Amounts	Difference Final Budget and Actual Amounts
	Original 2018	Supplemental	Final 2018			
Receipts	435,914,092.22	188,139,030.25	624,053,122.47	188,139,030.25	643,862,989.03	19,809,866.56
Expenditures	435,914,092.22	171,282,565.36	607,196,657.58	91,282,565.36	352,709,227.44	254,487,430.14
Balance	0	16,856,464.89	16,856,464.89	96,856,464.89	291,153,761.59	274,297,296.70

C. Audit Opinion

4. Because of the significance of the matter described in the Independent Auditor's Report, we expressed a qualified opinion on the fairness of the presentation of the financial statements of the Municipal Government of Claver, Surigao del Norte for CY 2018 because of the following reasons:

- a) Accuracy of the Cash in Bank – Local Currency Current Account balance of P636,040,430.76 is doubtful due to unrecorded prior year's reconciling items totaling P268,625.00 of the Bank Reconciliation Statements (BRS) in the books of the agency and no BRS were prepared by the Municipal Accountant on two (2) depository bank accounts;
- b) Valuation and accuracy of the balances of Property, Plant and Equipment (PPE) and Depreciation Expense accounts amounting to P972,256,687.89 and P19,393,380.85, respectively, were unascertained due to no annual physical count of PPE was conducted and no Property Cards and Ledger Cards on PPE were maintained by the General Service Officer and Municipal Accountant's Office, respectively; and ongoing construction of infrastructure projects funded by the 20% Development Fund totaling P6,769,709.75 were not recorded as Construction in Progress (CIP);
- c) Validity and accuracy of the Accounts Payable-Current account balance of P80,659,397.58 is doubtful due to inclusion of P25,133,302.07 or 31.16% which have been outstanding and/or not settled for more than 12 months and recording of some obligations with no valid claimants and not supported with sufficient evidence prior to calendar year 2018;
- d) Accuracy of the balance of Due from NGOs/POs account totaling P3,534,877.88 is unreliable due to no identified valid recipients of the transferred fund amounting to P2,534,877.88 or 71.82% and non-liquidation by CLACOFARMCO of P1,000,000.00 which was granted prior to year 2018 and no assurance that it was utilized to its intended purpose;
- e) Accuracy of the balances of all accounts in the General Fund is doubtful due to non-preparation and non-maintenance of subsidiary ledgers, trial balance and financial statements by LGU Claver for all special accounts, thus difficulty in the validation of management's assertions on the financial statements as these were reported in a lump-sum amount in the General Fund and evaluation whether the income generated by the economic enterprises are sufficient to meet their respective operating costs.
- f) The uncollected rent income on the lease of space in the market premises of LGU Claver and penalties thereon by delinquent Stallholders were not accounted and recorded in the books of the LGU not in accordance with Paragraph 19 of PPSAS No. 9 on Revenue from Exchange Transaction and Section 4.1 of COA Circular No. 2014-003 dated April 15, 2014.

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. Require the Municipal Accountant to record only valid reconciling items in the GL, and to prepare BRS on all bank accounts within ten (10) days from receipt of the bank statements to ensure the fair presentation of the financial statements.
- ii. Require the General Service Officer (GSO) and/ or the Inventory Committee to conduct physical count on all PPE owned by the LGU and prepare report thereon to be submitted not later than January 31 of each year. Likewise, direct the GSO and the Municipal Accountant to keep and maintain Property Cards and Local Road Network Property Cards; and Property, Plant and Equipment Ledger Card, Real Property Ledger Card, Construction in Progress Ledger Card, Registry of Public Infrastructures and Local Road Network Ledger Card, respectively. Further, direct the Municipal Accountant to make the necessary adjusting entries to reclassify the recorded Asset accounts to appropriate CIP – Agency Asset Accounts and to timely record all projects based on percentage of completion as inspected by the LGU.
- iii. Direct the Municipal Budget Officer and the Municipal Accountant to recognize liability only when the obligation is founded on a valid claim that is properly supported by sufficient evidence and there is proper authority for its incurrence. Require the Municipal Accountant to substantiate the Accounts Payable account to ensure the fair presentation of the financial statements and to settle the obligation within 12 months after the reporting date.
- iv. Management has to monitor and inspect the project implementation of the recipient NGOs/POs based on the provision of the MOA and approved project proposal and to demand the liquidation of funds transferred by complying the documentary requirements enumerated in Section 2.2 of COA Circular No. 2012-001 dated June 14, 2012. Otherwise, require the NGOs/POs for the settlement/ return of the fund if not used to its intended purpose. Further, direct the Municipal Accountant to provide the details of P2,538,877.88 in compliance with Section 5.2 of COA Circular No. 2007-001 dated October 25, 2007.
- v. Management has to hire additional manpower for the Municipal Accountant's Office to facilitate the maintenance of subsidiary ledgers and the Municipal Accountant to submit the same with the trial balance and financial statements for all special accounts of the LGU as part of the schedules of the General Fund in adherence of NGAS Manual for LGUs, Volume I. Likewise, direct the Municipal Treasurer to open a separate bank account for the existing economic enterprise of the LGU through Sanggunian Bayan resolution.
- vi. Direct the LEEDMO In-Charge to furnish the Municipal Accountant's Office of the billing statements of all leased premises and for the Municipal Accountant thereon to fully account and record the rental fees in the books of the LGU.

6. The other significant audit observations and recommendations are as follows:

- i. The fund transfers to different LGUs in calendar year 2018 and in previous years amounting to P636,200.00 and P1,755,080.05, respectively, remained unliquidated as of December 31, 2018 despite the end of the event and the grant of additional fund transfers were allowed even the previous fund transfers are not first settled not in accordance with Section 89 of Presidential Decree No. 1445, thus, the Due from LGUs account totaling P2,391,280.05 remained in the books of the agency and LGU Claver might have been deprived of the use of the fund to other purposes if not used by the LGUs to its intended purpose.

We recommended Management to require the Municipal Accountant to immediately demand the liquidation of funds transferred and submission of supporting documents on the utilization of the fund received by the LGUs concerned. Otherwise, require the LGUs for the settlement/ return of the fund if not used to its intended purpose. Likewise, incorporate in the Memorandum Agreement the responsibilities of the implementing agency set forth in COA Circular No. 94-013 dated December 13, 1994.

- ii. Goods totaling P300,250.00 for the Establishment of Pasalubong Center in LGU Claver funded by the Department of Trade and Industry – Bottom-Up Budgeting (DTI-BUB) were delivered prior to the conduct of procurement process not in accordance with Republic Act No. 9184 and the 2016 Revised Implementing Rules and Regulations (IRR), thus circumventing the conduct of competitive bidding and depriving the LGU to avail of the most advantageous price.

We recommended Management to direct the End-User not to accept the goods delivered and the Inspectorate Team not to sign the Acceptance and Inspection Report when no Purchase Order/Contract was issued. Further, require the Bids and Award Committee to ensure that execution of Purchase Order/ Contract to be done prior to the delivery of goods procured. Likewise, direct the Office of the Municipal Accountant to review the supporting documents before processing the claims.

- iii. Unutilized fund transfers of P208,489.50 on completed projects of the fiscal years 2017 and 2018 Local Government Support Fund – Assistance to Disadvantaged Municipalities (LGSF-ADM) and Local Government Support Fund – Assistance to Municipalities (LGSF-AM) Programs, respectively, were unremitted to the Bureau of Treasury (BTr) contrary to COA Circular No. 94-013 dated December 13, 1994, Section 4.3.6 of DILG-DBM JMC No. 2017-3 dated May 23, 2017, and Section 6.4.5.2 of DILG Memorandum Circular (MC) No. 2018-61 dated May 3, 2018. Moreover, it deprived other government agencies to use the fund to other priority projects.

We recommended that Management require the Municipal Accountant and the Municipal Treasurer to remit promptly the unexpended balance on completed projects to the BTr. Further, direct the Municipal Accountant to prepare necessary journal entries on the return of the amount to close the Due to NGAs account in adherence with DILG-DBM JMC No. 2017-3, DILG Memorandum Circular No. 2018-61 and COA Circular No. 94-013.

- iv. Appropriation and utilization of 20% Development Fund to non-investment or non-capital expenditures totaling P338,384.25 contravened Sections 2.3, 4.1 and 4.2 of DILG and DBM Joint Memorandum Circular (JMC) No. 2017-1 dated February 22, 2017, thus depriving the Municipality of the additional benefits out of the priority and development projects for which the fund was intended.

We recommended that Management adhere strictly the provisions of DILG and DBM JMC No. 2017-1 in appropriating and utilizing 20% of the Annual Internal Revenue Allotment for development projects.

- v. LGU Claver utilized only ₱9,372,388.35 or 65.13% of the 70% of Local Disaster Risk Reduction Management Fund (LRDDMF) for CY 2018 contrary to Section 2(e) of Republic Act 10121; and appropriated for traveling expenses in the 70% and excluded other projects and activities of disaster preparedness in the appropriation not in accordance with Sections 5.1 to 5.4 of NDRRMC, DBM and DILG JMC No. 2013-1 dated March 25, 2013. Thus, there is a risk that the LGU could not build disaster resilient communities and could not reduce disaster risks at all levels.

We recommended Management to appropriate properly the 70% of the LDRRMF in accordance with the programs and projects enumerated in Sections 5.1 to 5.4 NDRRMC, DBM and DILG JMC No. 2013-1 and optimally utilize the fund to build a disaster resilient community and to reduce disaster risks. Further, charging of traveling expenses, as one of the maintenance and other operating expenses, shall be in the General Fund and not to the 70% of the LDRRMF.

- vi. Non-preparation and non-submission by LGU Claver of annual progress report on the strategies implemented and accomplishments to the National Solid Waste Management (NSWM) contravened NSWM Commission Resolution No. 714, series of 2016 and Sections 10 and 12 of RA 9003, thus implementation of programs, projects and activities embodied in the approved 10-year Solid Waste Management Plan cannot be monitored and evaluated.

We recommended that Management direct the Municipal Solid Waste Board to prepare and submit an annual progress report on the strategies implemented and accomplishments to the National Solid Waste Management through its Secretariat in compliance with NSWMC Resolution No. 714 series of 2016.

- vii. Supplies and materials totaling P319,737.00 for the 2018 Brigada Eskwela charged against the Special Education Fund (SEF) of LGU Claver were delivered by the Suppliers prior to the issuance of the Purchase Orders and Notarized Omnibus Sworn Statements; and contracts were split not in accordance with RA No. 9184 and the 2016 Revised Implementing Rules and Regulations (IRR), thus circumventing the conduct of competitive bidding and depriving the LGU to avail of the most advantageous price. Moreover, the procurement of goods were not supported with complete documentations as what are required in Appendix A of Annex H of the Revised IRR, and Sections 9.2 and 9.2.5 of COA Circular No. 2012-001 dated June 14, 2012, thus affecting the validity, propriety and legality of the transactions.

We recommended that Management direct the Requisitioner/End-User not to accept the goods delivered and the Inspectorate Team not to sign the Acceptance and Inspection Report if Purchase Order/Contract was not issued. Further, require the Bids and Award Committee to ensure that execution of Purchase Order/Contract be done prior to the delivery of goods procured and not to resort to splitting just to evade competitive bidding. Likewise, direct the Office of the Municipal Accountant to require from persons concerned the lacking supporting documents before claims are processed.

- viii. Remittance by LGU Claver of the share from the proceeds of the Special Education Fund (SEF) Tax to Province of Surigao del Norte was delayed by 6 days and 40 days and remittances for November and December 2018 were still not remitted as of January 15, 2019 contravened Section 9 of Republic Act No. 5447 and it deprived the Province to utilize the fund to programs, projects or activities within the budget period.

We recommended Management to require the accountable officers concerned to fast track the processing of the remittance of Provincial share from the additional one percent (1%) tax on real property accruing to the SEF to meet the payment thereof with fifteen (15) days of every succeeding month in compliance with Section 9 of RA 5447.

- ix. Lease contracts on Space in the Market of LGU Claver were not properly imposed and completely filled up and no execution of lease contracts with some Stallholders not in accordance with Sections 67 and 69 of Municipal Ordinance No. 2017-32 known as the Revenue Code of 2017 of the Municipality of Claver, Province of Surigao del Norte.

We recommended that Management direct the LEEDMO In-Charge and the Municipal Treasurer's Office to strictly enforce the Lease Contracts and the provisions in Sections 67 to 69 of Municipal Ordinance No. 2017-32 known as the Revenue Code of 2017 of the Municipality of Claver, Province of Surigao del Norte. Likewise, the Management has to install systems from the numbering of stalls, application, billing, collection and accounting of the rental fees in coordination with the LEEDMO, MTO and Municipal Accountant's Office.

- x. No 5-Year Business Plan (BP) for each Local Economic Enterprise (LEE) were prepared by LGU Claver contrary to Section 5.3 of Manual on the Setting Up and Operation of the Local Economic Enterprises (2016), thus, there is no guide to help the LEE's operations financially self-sufficient and eventually profitable, and no details how the LEE is going to achieve its objectives and where it plans to go in terms of management, staffing, marketing and sales.

We recommend Management to instruct the LEEDMO In-charge to prepare a 5-Year Business Plan for each LEE in compliance with Section 5.3 of the Manual on the Setting Up and Operation of the Local Economic Enterprises (2016) and be guided of the provisions therein.

- xi. Gender and Development (GAD) Fund of LGU Claver totaling P2,583,348.39 or 9.20% of total GAD appropriation of P28,088,114.81 was not fully utilized, thus, it deprived the GAD intended beneficiaries of the programs, projects and activities and failed to support the policy of the State as provided for in Section 2 of Presidential Decree No. 1445 and Republic Act No. 9710.

We recommended that Management direct the GAD Focal Point System to properly plan and regularly monitor the implementation of GAD PPAs, to ensure its full utilization and to help promote empowerment of women, pursue equal opportunities for women and men, and to ensure equal access to resources and to development results and outcome. Moreover, if there is a need to change and/or implement additional PPAs as a result of regular monitoring, the Local Chief Executive shall inform the concerned DILG Office in writing in accordance with Section 6.0 of PCW-DILG- DBM-NEDA JMC No. 2016-01 dated January 12, 2016.

E. Summary of Total Suspensions, Disallowances and Charges

7. Audit suspension and disallowances amounting to P8,743,762.31 and P5,012,124.32, respectively, remained unsettled as of December 31, 2018 contrary to Section 5.4 and 7.1.1 of COA Circular No. 2009-006 dated September 15, 2009.

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

8. Out of twenty-three (23) audit recommendations in the CY 2017 Annual Audit Report, eight (8) were fully implemented, eleven (11) were partially implemented and four (4) were fully implemented.