

EXECUTIVE SUMMARY

A. Introduction

We conducted the audit on the Provincial Government of Pampanga (PGP), a first class province comprising of 19 municipalities, two component cities, one highly urbanized city and 538 barangays.

Our audit was made in accordance with Philippine Public Sector Standards on Auditing and we believe that it provided a reasonable basis for the audit results.

B. Financial Highlights

The financial highlights of the Province of Pampanga for CY 2017 with comparative figures for CY 2016 follow:

Particulars	CY 2017	CY 2016	Increase (Decrease)	
			Amount	%
Financial Condition				
Total Assets	9,530,313,508.15	6,233,746,975.18	3,296,566,532.97	53%
Total Liabilities	1,980,022,915.39	1,537,503,053.04	442,519,862.35	29%
Net Assets/Equity	7,550,290,592.76	4,786,243,922.14	2,764,046,670.62	58%
Results of Operations				
Total Revenue	2,991,627,797.32	2,690,926,023.88	300,701,773.44	11%
Total Expenses	2,438,631,647.88	2,184,491,476.11	254,140,171.77	12%
Surplus(Deficit)	552,996,149.44	506,434,547.77	46,561,601.67	9%
Sources and Application of Funds				
Appropriations	3,284,056,848.65	2,833,711,314.00	450,345,534.65	16%
Allotments	3,284,056,848.65	3,433,713,890.68	(149,657,042.03)	(4%)
Obligations	2,381,292,119.29	2,422,597,561.98	(41,305,442.69)	(2%)
Balances of Appropriations	902,764,729.36	411,113,752.02	491,650,977.34	120%
Balances of Allotments	902,764,729.36	1,011,116,328.70	(108,351,599.34)	(11%)

C. Scope of Audit

The audit covered the examination, using risk-based approach, of the accounts and financial transactions of the Provincial Government of Pampanga for CY 2017 particularly those contained in the Memorandum dated October 12, 2017 of the COA Local Government Sector Assistant Commissioner. Part II of this Report contains the audit exceptions on the 2017 Audit Focus and Thrusts for the Local Government Sector and other high-risk accounts.

The audit was aimed to (a) verify the level of assurance that may be placed on management's assertions on the financial statements; (b) determine compliance of management with the laws, rules and regulations on the pre-identified audit thrusts/areas

and recommend agency improvement opportunities thereon; and (c) determine the extent of implementation of prior year's audit recommendations.

D. Independent Auditor's Report

We rendered a qualified opinion on the fairness of presentation of the financial statements owing to (a) overstatement of inventories due to inclusion of non-existent inventories totaling to ₱871,244,083.47; and (b) understatement of the Property, Plant, and Equipment (PPE) due to the (i) non-recognition in the books of the local road network totaling ₱2,962,640,035.58; (ii) inclusion of properties amounting to ₱816,425,539.38 constructed/repaired and purchased by the Province whose benefits accrue to the recipient national government agencies, local government units and schools; and (iii) non-recognition of undetermined value of titled lots and 523 untitled lots owned by the Province as of year-end.

For the above errors we recommended that the Accounting Office (a) coordinate with the General Service Office (GSO), other concerned departments, and end-users on the reconciliation of the Inventory account balances; (b) coordinate with the Officer-in-Charge (OIC) of the GSO, Provincial Engineer and Provincial Assessor for the proper recognition of infrastructure assets in the books of the PGP; (c) coordinate with the Provincial Assessor and Provincial Treasurer for the recognition in the books of the unrecorded lots owned by the Province; and (d) draw the appropriate journal entries to adjust/correct all noted deficiencies for accurate and fair presentation of the Inventory, PPE and Government Equity accounts.

E. Summary of Other Significant Audit Observations and Recommendations

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

1. The accuracy of the year-end Cash in Bank account balances totalling ₱3,834,336,628.28 was not established due to (a) disparity of ₱253,679,759.44 in the balances of bank accounts between the subsidiary ledgers and cash book balances; (b) discrepancy of ₱129,391,817.79 in the confirmed bank balances; (c) delayed preparation of bank reconciliation statements; and (d) disparity of ₱54,220,316.21 in the Cash in Bank Book Balances reported per Bank Reconciliation Statements and Accounting Subsidiary Ledgers contrary to pertinent regulations. (**Observation No. 1**)

We recommended that the (a) Provincial Accountant (i) improve further the timeliness in the submission of the BRS and refer to the prescribed rules and regulations provided in Section 74 of PD 1445 and COA Circular No. 96-011 dated October 2, 1996; (ii) reconcile the discrepancies noted in the bank confirmation responses evidenced by updated bank reconciliation statements and furnish the Audit Team with the necessary journal entry vouchers, with supporting documents, as applicable; and (iv) furnish the Provincial

Treasurer copies of the Monthly Bank Reconciliation Statements to serve as bases for taking up adjustments in the Cashbooks;

Also, the Provincial Treasurer (i) continue to be resourceful and patient in communicating with the banks and appropriate agencies for the possible production of corroborative records to establish the validity of the reconciling items; and (ii) forward to the Accounting Office promptly the debit and credit memos for an updated and accurate recording of Cash in Bank transactions;

Moreover, the Provincial Accountant and Provincial Treasurer (i) reconcile and account for the differences amounting to ₱253,679,759.44 of the Cash in Bank account, between the cashbooks and the accounting records and thereafter, record the necessary adjustments; and (ii) conduct regular reconciliation of the accounts to establish the correctness of both records.

2. The accuracy of the Accounts Payable account at year-end of ₱757,787,444.37 was not established owing to the (a) presence of negative accounts payable balances totaling ₱42,074,994.10; (b) inclusion of undocumented/dormant accounts of ₱51,170,413.24 which remained outstanding for two to ten years; and (c) erroneous recording of and excess payables totaling ₱30,011,973.64 contrary to Section 4(6) of PD No. 1445 and Section 4 of the Manual on the NGAS for LGUs, Volume I. (**Observation No. 4**)

We recommended that the Provincial Accountant (a) draw the appropriate journal entries to adjust/correct all noted deficiencies for accurate and fair presentation of the Accounts Payable; (b) review all outstanding payables and revert the excess payables and those which had been outstanding for more than two years and without actual claims, administrative or judicial, or which were not covered by perfected contracts or records; (c) improve subsidiary keeping, thru the aid of spreadsheet or database application, for the payable accounts by maintaining an individual SL for each supplier/creditor starting for the current year payable until all valid payables are covered to facilitate generation of schedules and identification of AP items for deletion/reversion; and (d) upon full payment of a creditor's claim, concurrently close the payable account for any excess amount set up to prevent overstatement thereof.

3. The Provincial Government of Pampanga (a) registered a completion rate of 32 percent of its programmed projects under its 20% Development Fund because of inadequate planning on its procurement activities and inefficiency in its procurement procedures depriving its constituents of the early enjoyment of the intended benefits therefrom; and (b) charged projects costing ₱27,577,142.35 not appropriate under the DF and charged to the DF projects amounting to ₱24,600,944.62 that could not be found in the AIP contrary to DILG and DBM JMC No. 2017-1 dated February 22, 2017. (**Observation No. 7**)

We recommended that the Local Chief Executive instruct the Local Development Council and key officials in the identification of projects in the 20% Development Fund to (a) improve adherence to the guidelines on the project identification and inclusion in the AIP

of development projects and in the utilization of the DF by referring to DILG and DBM JMC No. 2017-1 dated February 22, 2017 for guidance; (b) coordinate at the proper time with other government agencies such as the DPWH in the identification of projects for inclusion in the AIP so as to avoid duplication thereof.

We also reiterated our previous recommendation that the Local Chief Executive (a) require the BAC members and the Provincial Engineer to improve the timeliness of procurement planning and the conduct of all the stages in the procurement process to accelerate project implementation; and (b) direct the Provincial Planning and Development Officer and Provincial Engineer to (i) closely and regularly monitor the status of project implementation so that necessary interventions may be introduced at the earliest time; and (ii) increase manpower with the appropriate skills (e.g. engineer) to accelerate project implementation, as warranted.

4. The Provincial Government of Pampanga registered a low completion rate of 4.43 percent on its allotment of ₱131,110,000.00 for the construction/repair of school buildings under the Special Education Fund (SEF) due to inadequate planning and delay in the communication of Provincial School Board resolutions to the concerned departments depriving the students of the early enjoyment of the benefits therefrom. Moreso, other allocations were either partially utilized or not utilized. (*Observation No. 10*)

We recommended that the Local Chief Executive instruct the (a) Provincial School Board to (i) improve the timeliness of SEF budget planning thru early identification of priority projects together with the realistic cost estimate thereof; (ii) give highest priority to the construction and repair of school buildings, procurement of equipment and publication/reproduction of text books as directed in the Dep-Ed, DBM and DILG Joint Circular No. 1 s. 2017 not only in the allocation but also in the Fund utilization; and (ii) present the SEF budget by program, activity and project, by allotment class and per school for clarity and easy reference in the documentation of accounting events and transactions; and (b) Provincial Engineer to improve the timeliness in the preparation of the detailed engineering and other pre-procurement activities on the proposed infrastructure projects under the SEF for the early procurement and on-time implementation thereof.

5. Deficiencies were noted in the consignment of drugs and medicines intended for the district hospitals under the Provincial Government of Pampanga, such as: (a) prices of consigned drugs/medicines higher by a total of ₱1,286,010.33 against the prevailing market price contrary to DOH Administrative Order No. 2006-039; and (b) non-compliance to EO No. 49 and RA No. 9502 on the conformance of procured medicines to the Essential Drug List. (*Observation No. 12*)

We recommended that management: (a) comply with the specific guidelines and procedures in the procurement of consigned drugs and medicines prescribed under DOH Administrative Order No. 2006-039 dated December 8, 2006 to adhere to the principle of transparency, accountability, equity, efficiency and economy in its procurement process; (b) submit explanation on the noted ₱1,286,010.33 overpricing on paid drugs and medicines; (c) ensure that the Consignment Committee bear a copy of the latest edition of

the Philippine National drug Formulary (PNDF), Volume I and all drugs to be consigned are included and listed therein. If the drug to be consigned is not included in the PNDP, the payment of the consigned drugs and medicines should be supported with the written approval of the National Drug Policy Office pursuant to the above regulations.

6. The Provincial Government of Pampanga could have increased its revenues by at least P69 million from the collection of taxes and fees on sand, gravel and other quarry resources for CY 2017 had it strictly implemented the ordinances enacted for said purpose thus, depriving the host municipalities and barangays concerned of additional collections from quarry operations as envisioned in Section 138 of RA No. 7160. (*Observation No. 18*)

We recommended that the Local Chief Executive (a) require the immediate accreditation, thru the Accreditation Committee, of all motor vehicles used in the hauling and transporting of sand, gravel and other quarry materials within its territorial jurisdiction for improved monitoring on the haulers of quarry resources and for reference in the correct assessment of taxes/fees based on their actual load; and (b) consider creating a monitoring group or task force who are authorized to perform random inspection and validation of the control procedures.

F. Summary of Total Suspensions, Disallowances and Charges at Year-End

As of year-end, suspensions, disallowances and charges stood at ₱22,181,586.38, ₱23,338,112.60 and ₱0.00, respectively.

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

There were 21 observations contained in the 2016 Annual Audit Report for which 108 recommendations were offered. As of report date, 68 were fully implemented, 36 were partially implemented while four have not yet been implemented. The details are discussed in Part III of this report.