

## EXECUTIVE SUMMARY

### A. Introduction

#### 1. Agency Profile

The Municipality of Palanan is one of the coastal towns of Isabela. It can be reached only by air transportation or by boat from Dinasag, Aurora. It is located in the eastern part of the province and was founded by Franciscan Missionaries on July 22, 1609.

Fishing and farming are the main sources of livelihood in the locality. The Municipality is widely known for its native products, the finely weaved colored hats of different styles, ladies and children's bags, mat, fan of different sizes, and wall decorations made of pandan leaves or locally known as "SABUTAN". Furniture's such as sala sets, utility boxes of different sizes, house décor made of rattan, souvenir items made of seashells are also some of the products of the municipality. They also produce coconut and root crops.

As of December 31, 2017, the Municipality of Palanan had a total personnel complement of 401 consisting of 106 permanent employees, 11 elective officials, 18 temporary employees, 2 co-terminus employees and 264 job orders.

#### 2. Scope of Audit

The audit covered the accounts and operations of the Municipal Government of Palanan, Isabela for the year 2017 and was aimed at determining whether management presented fairly the financial statements of the Municipality in adherence to the generally accepted accounting principles; whether prevailing laws, rules and regulations have been complied with; and funds were utilized in the most efficient, effective and economical manner. Financial and compliance as well as value for money audits were conducted to achieve these audit objectives.

The 2017 audit thrusts/focus for the Local Government Sector were prioritized for audit consistent with unnumbered memorandum dated October 12, 2017 issued by the Commission on Audit Central Office.

### B. Financial Highlights

The financial condition, results of operation, appropriations, allotments and obligations of the Municipality of Palanan for the year ended December 31, 2017, with comparative figures for CY 2016, are presented in the next page:

	2017	2016	Increase / (Decrease)
<b>Financial Condition</b>			
Assets	₱ 158,051,935.61	₱ 146,232,990.38	₱ 8,496,380.99
Liabilities	16,401,495.23	10,377,547.32	6,023,947.91
Net Assets/ Equity	141,650,440.38	135,855,443.06	5,794,997.32
<b>Results of Operation</b>			
Income	₱ 200,500,149.91	₱ 152,698,792.30	₱ 47,801,357.61
Expenses	181,491,964.66	152,291,412.38	29,200,552.28
Net Income	19,008,185.25	407,379.92	18,600,805.33
<b>Appropriations, Allotments and Obligations</b>			
Appropriations – Current	₱ 173,858,138.00	₱ 152,497,031.00	₱ 21,361,107.00
Allotments – Current	173,858,138.00	152,497,031.00	21,361,107.00
Obligations – Current	150,085,767.18	144,200,725.74	5,885,041.44

During the year 2017, the Municipality received funds from other national government agencies totaling ₱18,310,323.85 and none was transferred to other agencies. Below is the Comparative Statement of Funds Transfer from NGAs, LGUs and GOCCs.

	2017	2016	Increase / (Decrease)
<b>Funds Received from Other Agencies:</b>			
National Government Agencies	₱18,260,052.50	₱10,953,325.00	₱ 7,306,727.50
Local Government Units	50,271.35	₱ 1,200,000.00	₱ 1,149,728.65
GOCCs	-	₱ 6,182,095.33	(₱6,182,095.33)

### C. Independent Auditor's Report on the Financial Statements

The Auditor rendered a Qualified Opinion on the fairness of presentation of the financial statements of the Municipality of Palanan for the year-ended December 31, 2017 due to the following:

1. Inadequate evidence to support the adjustments made to decrease the Property, Plant and Equipment (PPE) account totaling ₱8,919,066.54. Also, the lack of sufficient records and documents prevented the independent verification and substantiation of the recorded Accumulated Depreciation of all properties amounting to ₱35,795,543.72. Due to the above conditions, we were not able to satisfy ourselves as to the carrying value of PPE of ₱116,688,622.75 as at December 31, 2017.
2. Unreconciled difference of ₱2,237,944.79 in the Cash Local Treasury account per Cash Book balance vis-à-vis General Ledger balance due to the continued

failure to reconcile both records, thus the accuracy and reliability of the Cash Local Treasury account with a total balance of ₱3,717,238.21 cannot be accurately established.

For the deficiencies noted, we recommended the following:

For the PPE account:

We recommended that Management (a) submit a detailed reconciliation between accounting and inventory records to substantiate the decrease in PPE account; and (b) maintain Property Ledger Cards per class of PPE and consequently submit the subsidiary ledgers detailing all properties recorded in the books. Accordingly, compute the correct accumulated depreciation of all properties and adjust the records as necessary.

For the Cash Local Treasury Account:

We recommended that the Municipal Accountant and Municipal Treasurer prioritize to reconcile the Cash Book and General Ledger balances and make necessary adjustments as necessary.

#### **D. Summary of Significant Findings and Recommendations**

1. Incomplete bidding documents were submitted and some procedural requirements were not complied with in the procurement of a 4-Wheel Drive Farm Tractor with a total contract amount of ₱2,800,000.00 due to Management's non-compliance with the requirements of the procurement law and COA Circular No. 2012-001.

**We recommended that Management through the Bids and Awards Committee (BAC) submit the identified lacking documents to support the procurement activities conducted and strictly observe the documentary and procedural requirements of the procurement law.**

2. The employer's share on Pag-IBIG mandatory contributions were above the rate prescribed in Section 1 Rule VI of the Implementing Rules and Regulations of Republic Act (RA) No. 9679 otherwise known as Home Development Mutual Fund Law of 2009.

**We recommended that Management strictly comply with the existing rules and regulations on the prescribed rate in the computation of employer's share on Pag-IBIG contributions.**

3. Several programs, projects and activities funded out of the 20% Development Fund totaling ₱11,850,000.00 remained unimplemented as of December 31, 2017 due to lack of effective strategies to expedite the implementation of identified programs.

We recommended Management to direct the Local Development Council and the Municipal Planning and Development Office, together with the concerned implementing offices, in coordination with the Bids and Awards Committee to fast track the implementation and completion of the projects to be implemented in order to achieve the objectives in providing socio-economic benefits to the intended beneficiaries.

4. Management did not allocate one percent (1%) of Internal Revenue (IRA) for strengthening and implementation of the programs, projects and activities of Local Councils for the Protection of Children (LCPC) in violation of Section 15 of RA 9344.

We recommended that the Management allocate at least 1% of its IRA for that purpose in compliance with Section 15 of RA 9344 and DILG Memorandum Circular No. 2012-120 dated July 4, 2012 in order to ensure implementation of programs, projects and activities for the protection of children.

#### E. Status of Audit Disallowances, Suspensions and Charges

Particulars	Beginning Balance	Issued During the Year	Settlement During the Year	Ending Balance	% of Settlement
<b><u>Suspensions</u></b>					
Prior Years	₱6,701,522.39	₱ -	₱ -	₱6,701,522.39	0.00%
Current Year	-	-	-	-	-
Total	₱6,701,522.39	₱ -	₱ -	₱6,701,522.39	0.00%
<b><u>Disallowances</u></b>					
Prior Years	₱10,397,819.19	-	-	₱10,397,819.19	0.00%
Current Year	-	-	-	-	-
Total	₱10,397,819.19	-	-	₱10,397,819.19	0.00%
<b><u>Charges</u></b>					
Prior Years	-	-	-	-	-
Current Year	-	-	-	-	-
Total	-	-	-	-	-

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

Out of the thirteen (13) audit recommendations embodied in the 2016 Annual Audit Report, six (6) were fully implemented, seven (7) were partially implemented.