

EXECUTIVE SUMMARY

A. Introduction

The Municipality of Peñaranda, Nueva Ecija is a fourth class municipality composed of ten (10) barangays. Its mandated function is to exercise full implementation of Republic Act No. 7160 known as the Local Government Code of 1991. As mandated under the said Code, Peñaranda, like other local government units, is tasked to provide basic services to its constituents, accelerate its economic development, upgrade the quality of life of the people and be an effective partner in the attainment of the national goals. It enjoys total independence in managing its own administrative, financial and development affairs toward the socio economic welfare of its people.

Economic enterprises being operated by the municipal government includes a municipal market, slaughterhouse and an academic extension campus of the Nueva Ecija University of Science and Technology.

The audit covered the financial and compliance audit on the transactions and operations of the Municipality of Peñaranda for Calendar Year 2016. The objectives of the audit were to ascertain the level of assurance that may be placed on management assertions on the financial statements; recommend agency improvement opportunities; and determine the extent of implementation of prior year's audit recommendations.

B. Financial Highlights

The comparative analysis of the agency's financial position for CYs 2016 and 2015 is shown below:

	2016		2015		Inc./ (Dec.)
Financial Condition					
Assets	P	202,081,976.87	P	169,614,303.90	P 32,467,672.97
Liabilities		115,806,923.83		120,955,254.94	(5,148,331.11)
Government Equity		86,275,053.04		48,659,048.96	37,616,004.08
Results of Operation					
Income	P	127,467,058.29	P	85,084,100.24	P 42,382,958.05
Expenses		113,306,067.63		73,886,117.27	39,419,950.36
Excess of Income Over Expenses		14,160,990.66		11,197,982.97	2,963,007.69
Sources and Application of Funds					
Appropriations	P	95,352,328.20	P	84,740,926.81	P 10,611,401.39
Allotments		95,352,328.20		84,740,926.81	10,611,401.39
Obligations		90,222,822.67		80,988,127.66	9,234,695.01
Balances		5,129,505.53		3,752,799.15	1,376,706.38

C. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements for failure of management to (1) ascertain the existence and accuracy of the Property, Plant and Equipment valued at ₱97,234,747.21 due to (a) non- conduct of complete physical inventory; (b) non-submission of corresponding report; and (c) non-maintenance of property records in the Property and Accounting Offices; and (2) monitor unliquidated cash advances amounting to ₱1,104,536.48 which remained outstanding for one to five years, thereby overstating the cash and receivables account and understating expenses.

For the exceptions cited above, we reiterated our previous recommendation that management (a) create an inventory committee and conduct complete physical inventory of all properties of the municipality to determine their existence and physical conditions; (b) exert extra efforts to locate old records of acquisition to provide basis in the preparation of subsidiary records; (c) enforce strict compliance with COA Circular No. 97-002 in the granting of cash advances and the subsequent liquidations thereof; (d) monitor liquidation of outstanding cash advances, refrain from granting new/additional cash advances unless the previous cash advance has been liquidated or a proper accounting thereof has been made; and (e) send demand letters to those officers and employees and/or if warranted effect the withholding of salary for those who failed to settle immediately their accounts as required by the regulations and initiate appropriate legal action against the former Municipal Treasurer.

D. Other Significant Observations and Recommendations

Summarized below are the other significant observations noted during the year and the corresponding recommendations are discussed in detail in Part II of this report. Management views and comments were incorporated in the report, where appropriate.

1. Disbursement Vouchers (DVs)/Liquidation Reports (LRs) for the cash assistances to beneficiaries in CY 2016 amounting ₱2,710,100.00 were not properly documented pursuant to Section 4.2 of DSWD MC No. 02 S. 2014 making it difficult to properly establish the authenticity of the transactions. Likewise, the assistances granted were recorded under Other Maintenance and Operating Expenses account instead of Donations account which was not in concurrence with COA Circular No. 2015-009 dated December 1, 2015 prescribing the Revised Chart of Accounts of the LGUs.

We recommended that the (i) Municipal Accountant (a) ensure that all payments for AICS be adequately and properly supported by the required documents enumerated under Section 4.2 of DSWD MC No. 02 s. 2014 to establish the validity and propriety of claims; and (b) ensure that the proper account is used in recording the payment of AICS; and (ii) MSWDO is advised to prepare and maintain a file of each client/beneficiary's case evaluation to facilitate validation of the propriety of said transaction.

2. Common-use supplies costing ₱548,190.50 were not procured from PS-DBM contrary to Section 53.5 of the Revised IRR of RA No. 9184, Administrative Order No. 17 and DBM Circular Letter No. 2011-6.

We recommended that management (a) procure all common-use supplies directly from the PS-DBM; and (b) cause the yearly submission of its Annual Procurement Plan for Common-Use Supplies and Equipment to assist the Procurement Service in strengthening its operations and improve its delivery of service.

3. The Municipality incurred expenses totaling ₱15,000.00 representing payment of membership dues of the league/association of appointive officials contrary to Department of Interior and Local Government (DILG) Opinion No. 99 dated July 3, 2002, thus, rendering the transactions irregular in nature.

We recommended that the Municipal Mayor instruct the Municipal Accountant to stop the practice of charging payment of membership dues of appointed officials in their respective association/league against the funds of the Municipality in compliance with the Department of Interior and Local Government (DILG) Opinion No. 99 dated July 3, 2002.

4. The Municipality failed to comply with the limitation on the minimum monthly take home pay for government employees of Three Thousand Five Hundred Pesos (₱3,500.00) as mandated under Section 52 of Republic Act No. 10717, otherwise known as the General Appropriation Act for FY 2016, hence may affect the economic condition and welfare of the employees concerned.

We recommended and the Municipal Mayor agreed to instruct the Municipal Accountant to comply with the provision on the minimum monthly net take home pay of Three Thousand Five Hundred Pesos (₱3,500.00) for all the regular employees of the municipality. The Municipal Accountant is likewise advised to observe the order of preference of the authorized deductions of loans and contributions from salaries and other benefits of employees concerned as mandated by Section 52 of Republic Act No. 10717, otherwise known as the General Appropriations Act for FY 2016.

5. Honorarium with an aggregate amount of ₱23,000.00 per month were given to the Administration officials of Nueva Ecija University of Science and Technology (NEUST) as provided for in the Memorandum of Agreement (MOA) without indicating the purpose of the same, thus legality of the claim could not be ascertained.

We recommended that the activities or duties performed by the officials of NEUST in addition to, or over and above their regular functions be enumerated to determine the basis of the grant of the honoraria.

We also recommended that the said honoraria be remitted to NEUST who shall cause the payment of the same to the concerned officials.

6. The Municipality failed to submit to the General Procurement Policy Board (GPPB) the Procurement Monitoring Report (PMR) for two semesters of Calendar Year 2016 in violation of Section 12.2 of the 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184, otherwise known as the Government Procurement Reform Act, hence transparency was not fully attained.

We recommended that the Municipal Mayor require the BAC to prepare and submit to the GPPB the Procurement Monitoring Report in printed and electronic format within fourteen (14) calendar days after the end of each semester in compliance with Section 12.2 of the 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184.

7. The municipality procured materials, gasoline and fuel from business establishment owned and operated by agency's employees having financial or materials interest in the transactions, thereby violating the Code of Ethical Standards for having pecuniary interest on government transactions.

We recommended and management agreed to stop its dealings with business establishments wherein the officials and or employees of the municipality have directly or indirectly have financial or material interest.

We also advised management to ensure that compliance with Sections 3 (1) and 7 (a) of the Code of Conduct and Ethical Standards for Public Officials and Employees (Republic Act No. 6713).

8. Checks totaling ₱10,480.00 which have been outstanding for over six months or more were not cancelled contrary to Section 59, Volume I of the Manual on the New Government Accounting System for Local Government Units regarding disposition of stale checks resulting in the overstatement of Cash in Bank and understatement of Accounts Payable.

We recommended that the Municipal Accountant adjust the affected accounts involved by debiting the Cash in Bank to reflect its actual balances and crediting the Accounts Payable to restore the liability to concerned creditors in the amount of ₱10,480.00. Likewise, the Municipal Treasurer is advised to send written notices to payees of checks which has long been outstanding a month before said checks become stale. Strict adherence to existing rules and regulations regarding the disposition of stale checks should be observed by concerned officials of the municipality.

9. Disbursements and/or liquidations of the Municipality on fund transfer from the National Government Agencies were not supported with copies of Memorandum Agreement or Trust Agreement in violation of Item 3.1.2 of COA Circular No. 2012-001 dated June 14, 2012.

We recommended that management furnish the Audit Team with the copies of Memorandum of Agreement (MOA)/Trust Agreement on all funds transferred by National Government Agencies (NGAs) as provided for in Item 3.1.2 of COA Circular

No. 2012-001 to facilitate evaluation and audit of disbursements made out of the said fund transfers.

We also advised that management explain the change in the project undertaken by the municipality out of the funds received from DTI amounting to ₱1,000,000.00. Likewise, we requested that management furnish the audit team with the approval of the source agency (DTI) on the change of project to be implemented.

10. Appropriation for Personal Services for CY 2016 has exceeded the 45% limitation by ₱5,737,637.90 contrary to the provision of Section 325(a) of the Local Government Code of 1991, thus depriving the budget for other programs/activities of the agency.

We recommended that management observe the PS limitation and comply with Section 325 of RA No. 7160. Likewise, the Local Chief Executive and Municipal Budget Officer were advised to ensure that there will be no filling – up of vacant position and no hiring/promotion until the required 45/55 PS limitation is achieved.

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

As of December 31, 2016, the total audit suspensions, disallowances and charges found in the audit of various transactions of the Municipality of Peñaranda are as follows:

	Beginning Balance as of Dec. 31, 2015	This period (Jan. 01 to Dec. 31, 2016)		Ending Balance as of Dec. 31, 2016
		NS/ND/NC	NSSDC	
Notice of Suspension	₱ 0	₱20,000.00	₱20,000.00	₱ 0
Notice of Disallowance	0	20,000.00	0	20,000.00
Notice of Charge	0	0	0	0
Total	₱ 0	₱40,000.00	₱20,000.00	₱20,000.00

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

Monitoring and evaluation of management action on the twenty three (23) recommendations contained in the CY 2015 Annual Audit Report revealed that only two (2) were fully implemented, fifteen (15) were partially acted upon while the remaining six (6) were not implemented thus, reiterated in this Audit Report.