

# EXECUTIVE SUMMARY

## INTRODUCTION

Some 94 kilometers from the City of Manila lies the cool Municipality of Cuenca. With the natural majestic backdrop of Mt. Maculot, it is strategically located at the heart of Batangas Province. It is a part of the Taal Lake region with the historic Mt. Maculot overlooking the volcano island. The town of Cuenca is known for its natural, historic and cultural attractions. Originally called “Makulog” by the early settlers, it was converted into town on November 7, 1876. It was named Cuenca by then Governor Paez because of its cold breeze and beautiful scenic spots resembling almost perfectly his hometown Cuenca in Spain.

It is a fourth class municipality of the third district of Batangas consisting of 21 barangays with a total land area of 3,410.87 hectares. Pursuant to Republic Act 7160, known as the Local Government Code of 1991, the Municipality enjoys a total independence in managing, deciding, and planning its own administrative, fiscal, and development affairs in conformity with national government thrust for social economic growth.

It is presently under the leadership of Municipal Mayor Celerino A. Endaya and supported by the members of the Sanggunian Bayan, local officials and employees. For the Calendar Year 2016, the Municipal Government received awards on Good Financial Housekeeping, Disaster Preparedness, Peace and Order, and Environmental Management.

The Organizational Structure of the Municipality is as follows:

a. Key Officials

Municipal Mayor	Hon. Celerino A. Endaya
Municipal Vice Mayor	Hon. Romulo P. Cuevas
Sanggunian Bayan Members	Hon. Grace R. Comia
	Hon. Nina Verdan
	Hon. Danilo Magsombol
	Hon. Geraldine Yu
	Hon. Aurea P. Pantas
	Hon. Danilo M. La Rosa
	Hon. Crispin J. Magsombol
	Hon. Lordlito Hosena
Municipal Accountant	Mr. Gregorio Endaya
Municipal Treasurer	Ms. Luisa Limbo

b. Number of Personnel Complement	
Permanent	73
Elective	11
Casual	2
Job Order	<u>78</u>
	<u>164</u>

## FINANCIAL HIGHLIGHTS

For Calendar Year (CY) 2016, the Municipality of Cuenca generated a total income of ₱88,548,025.29, of which, 83% was derived mainly from Internal Revenue Allotment and the rest are locally generated such as local taxes, permits and licenses, service, business and interest income. To carry out the projects, programs and activities of the Municipality, the appropriations and allotments for CY 2016 totaled ₱114,491,543.00 while the obligations totaled ₱82,151,492.00, leaving an unexpended allotment of ₱32,340,051.00.

The total assets, liabilities, equity, income and expenses for CY 2016 compared with that of the preceding year are as follows:

	<u>CY 2016</u>	<u>CY 2015</u>	<u>Increase (Decrease)</u>
Total Assets	₱ 178,020,295.45	₱ 148,736,743.93	₱ 29,283,551.52
Total Liabilities	34,963,650.42	21,611,116.87	13,352,533.55
Total Equity	143,056,645.03	127,125,627.06	15,931,017.97
Total Income	88,548,025.29	79,125,235.19	9,422,791.10
Total Expenses	67,905,668.22	62,922,321.23	4,983,346.99

## AWARDS AND CITATIONS

We commend the performance of the Municipal Government of Cuenca on certain areas manifested by the awards and recognition it has received during the year:

- Certificate of Recognition, Good Financial Housekeeping from DILG CALABARZON awarded last December 2, 2016
- Top 2 MLGU from the Province of Batangas Provincial Rabies Control and Coordinating Committee (PRCC) in grateful recognition of their exemplary performance and commitment on the Local Rabies Prevention, Control and Eradication Program during the period July 2015 to June 2016, given Sept 29, 2016 at the Provincial Auditorium, Kumintang Ibaba, Batangas City
- Blood Services Outstanding Award (Hall of Fame) from the Provincial Government of Batangas Blood Council

- Certificate of Recognition to Municipal Government of Cuenca for being the Pioneer in Municipal Level Migration and Development Program

## **SCOPE OF AUDIT**

Financial and compliance audits were conducted on the accounts and operations of the Municipal Government of Cuenca for Calendar Year 2016. It included analysis of accounts of the financial statements, review of transactions and test of compliance with financial rules and regulations. The audit was conducted to ascertain the fairness and reliability of the Municipality of Cuenca's financial position and results of operations, and to determine whether the Municipality's operations were conducted in compliance with applicable laws, rules and regulations as well as the economical, efficient and effective utilization of resources.

## **AUDIT OPINION**

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the Municipality due to the following:

1. The balance of the Property, Plant and Equipment (PPE) account aggregating ₱77,641,046.12 as of December 31, 2016 remained doubtful and unreliable due to failure to conduct the annual physical inventory taking to prove the existence of the assets and inability to maintain stock/property cards, resulting in the non-reconciliation of property and accounting records.
2. The accuracy and reliability of the balances of Real Property Tax and Special Education Tax Receivables both amounting to ₱1,397,437.95 or a total of ₱2,794,875.90, were doubtful due to lack of reconciliation of the book balance with the Treasurer's actual receivables.
3. Biological assets with a year-end cost of ₱1,268,498.00 were not revalued at its fair value less cost to sell at year-end, thus, any gains and losses arising from the change in fair value were not recognized. Moreso, cows and guilts that are not existing were still recorded in the books thereby overstating the Breeding Stocks account balance as at year-end.
4. Stale checks totaling ₱244,848.68 and ₱12,441.54 remained a bank reconciling item for LBP Account Nos. 0302-1143-82 and 0302-1075-80, respectively, rendering the accuracy and reliability of the Cash in Bank account balance doubtful.

## **SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS**

For the exceptions cited above, the Audit Team recommended the following courses of action:

1. The Municipal Mayor to create an inventory committee consisting of a Local Chief Executive's representative as chairman and the Municipal Treasurer, Municipal Accountant and, as the case may be, the head of each department/office concerned as members to conduct a yearly physical count of the said properties; and to render reports thereon not later than January 31 of the following year for approval. Furnish the COA Auditor copy of the approved reports; and direct the Acting GSO to maintain PPE property cards, and periodic reconciliation of these records with subsidy ledgers of the Acting Municipal Accountant.
2. The Municipal Accountant to cause immediate reconciliation of records based on the schedules provided by the Treasurer's Office to reflect reliable account balances. Since these are old balances, ensure that appropriate actions could be undertaken to recover such collectibles.
3. The Municipal Mayor to instruct the Municipal Accountant, with the assistance of MAO, to present the Breeding Stocks at whichever is higher of its fair value less cost to sell or its cost less any accumulated depreciation and any impairment losses at reporting date for a PPSAS-compliant financial statements.

We also recommended that the Municipal Mayor require the Municipal Agriculturist to determine the cause of the discrepancy in the Holstein cows and F1 gilts and submit information to the Municipal Accountant for proper adjustments in the books of accounts.

4. The Municipal Treasurer to return to the Accountant the original disbursement vouchers and supporting documents pertaining to stale checks for him to prepare the necessary adjusting journal entries in the books. Furthermore, effect the necessary adjustments of reconciling items determined during the preparation of the Monthly Bank Reconciliation Statements on a timely basis for an accurate and reliable Cash in Bank account balance in the financial statements.

In addition, the other significant observations and recommendations in the audit of the Municipal Government of Cuenca for CY 2016, are summarized below:

1. Complete specifications of the procured drugs and medicines, medical equipment, other devices and supplies totaling ₱1,711,917.20 were not provided in detail in the Purchase Orders contrary to COA Circular no. 96-010

thereby casting doubts on the reasonableness of prices offered by the suppliers and accuracy of the items upon delivery.

We recommended that the Bids and Awards Committee:

- a. during canvass, require the supplier to indicate the distinct description of the item they are offering;
  - b. indicate in the Purchase Order the detailed specifications as agreed with the supplier such as the information required by the above-mentioned COA Circular;
  - c. explain the difference in the prices of same items procured from the same supplier in separate transactions; refund the difference in price for each item affected considering that the available lower price is more advantageous to the government; and
  - d. For small value procurement, the requirement under Section 53.9 of RA9184 and the documentary requirements under Annex H of this Code shall be strictly complied.
2. Of the ₱5,848,786.73 total procurement of supplies and equipment from suppliers other than the Procurement Service of the Department of Budget and Management, a total of ₱1,593,794.34 or 27% were not procured directly from suppliers of known qualifications contrary to Section 52.3 of RA 9184, thereby casting doubts that the items were obtained at the lowest prices available.

We recommended that the Bids and Awards Committee procure directly from suppliers of known eligibility, not only based on financial and technical documents but which are actual stores or resellers authorized by manufacturers to avail of the lowest price available. Validate and verify all the necessary documents during the post-qualification proceedings in order to determine the authenticity of the documents and reliability of information provided by the bidders.

The above together with other observations and recommendations contained in the report were discussed with concerned Municipal Government officials and employees during the exit conference conducted on May 17, 2017. Management views and reactions were considered in the report, where appropriate.

Other audit observations and recommendations are discussed in detail in Part II of this Report.

## **STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

Of the sixteen prior year's audit recommendations embodied in the 2015 Annual Audit Report, eight were fully implemented, six were partially implemented and the remaining two were not implemented.