

## EXECUTIVE SUMMARY

### INTRODUCTION

The Municipality of Ferrol was separated from the Municipality of Odiongan and became a regular municipality on June 11, 1978 by virtue of Presidential Decree No. 1492.

The municipal government continued to pursue its commitments to its constituents and still has its primary goal of providing basic services and facilities as enumerated in Section 17(b) of Republic Act No. 7160.

The financial statements are consolidation of General Fund, Special Education Fund and Trust Fund. The Local Government Unit (LGU) maintains different accounts in the Trust Fund which are the PNB-Regular, DAR-ARCP2 Sub-projects, SALIN-TUBIG Program, BUB Account and MDRRM Fund.

### FINANCIAL HIGHLIGHTS

For Calendar Year (CY) 2016, the Municipality generated a total income of P38,578,893, which is higher by P3,512,215 or 10.02% compared with last year's P35,066,678. The internal revenue allotment of P37,439,035 represents 97.05% of the total income. Other major sources of income are local taxes, service and business income.

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

	<b>CY 2016</b>		<b>CY 2015</b>		<b>Increase (Decrease)</b>	
Total Assets	P	155,323,146	P	129,151,607	P	26,171,539
Total Liabilities		81,809,566		68,901,282		12,908,284
Total Equity		73,513,580		60,250,325		13,263,255
Total Income		38,578,893		35,066,678		3,512,215
Total Expenses		25,213,708		27,794,285		(2,580,577)

### SCOPE OF AUDIT

Financial and Compliance as well as Value for Money Audits were conducted on the accounts and operations of the Municipality of Ferrol for CY 2016. The objectives of the audit were to ascertain the fairness and reliability of the municipality's position and results of operations and compliance of the agency to laws, rules and regulations as well

as determine whether plans, programs and activities for the year were attained in an efficient, economical and effective manner.

## **AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS**

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the Municipality due to the following: a) The reliability of the recorded Inventory and Property, Plant and Equipment (PPE) accounts as of December 31, 2016 amounting to ₱549,061 and ₱12,426,082 (net of accumulated depreciation), respectively, cannot be ascertained due to incomplete physical count of the properties of the Municipality contrary to the Manual on the New Government Accounting System (NGAS) for Local Government Units (LGUs), Volume I and b) The Municipality failed to recognize depreciation for Property, Plant and Equipment accounts totaling ₱5,765,445 which is not in accord with Paragraph 4 of the Philippine Public Sector Accounting Standards (PPSAS) 17, Volume II, thus overstating the asset and equity accounts and understating the expense account.

## **SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS**

For the first exception cited earlier, we reiterated our recommendation that the Municipal Mayor: a) require the Inventory Committee to conduct the physical count of all Inventories and Property, Plant and Equipment (PPE) accounts of the Municipality and submit the corresponding report to the Audit Team; and thereafter, instruct the Municipal Accountant to reconcile the resulting balance of the physical count with the accounting records in order to present the correct balances of said accounts in the financial statements.

In the event that deficiencies/discrepancies exist between the Inventory Report and accounting records, the necessary adjustments/corrections should be made. Also, require the Head of the Inventory Committee to make a report of unserviceable/non-functional PPEs in the IIRUP which could be undertaken simultaneous with the physical inventory for disposal and eventual proper relief of accountabilities.

For the second exception cited, we recommended that the Municipal Mayor instruct the Municipal Accountant to exert more effort and find time in providing depreciation on Property, Plant and Equipment accounts of the Municipality mostly acquired earlier than 2012 in accordance with the mentioned regulation so that the annual decrease in value could be deducted from the original cost and PPE could be presented correctly in the financial statements, so as not to mislead the readers.

In addition, the following are other significant audit observations and recommendations in the audit of the Municipal Government of Ferrol for the year 2016:

1. The reciprocal accounts Due from and Due to Other Funds as of December 31, 2016 with account balances of ₱30,222,681 and ₱36,675,656,

respectively, remained unreconciled contrary to COA Circular No. 2015-009 dated December 1, 2015, rendering the account balances unreliable.

We reiterated our recommendation that the Municipal Mayor direct the Municipal Accountant to reconcile the reciprocal accounts Due from Other Funds and Due to Other Funds by identifying the causes of discrepancies in the corresponding ledgers.

2. The failure to observe the provisions of Section 89 of PD No. 1445 and COA Circular No. 97-002 dated February 10, 1997 resulted to the accumulation of cash advances as of December 31, 2016 amounting to ₱5,931,432.

We recommended that the Municipal Mayor:

- a) require the Municipal Accountant to strictly and uniformly implement the provisions of Section 89 of PD No. 1445, COA Circular No. 97-002 dated February 10, 1997 and Section 16 of EO No. 248 as amended by Section 14 of EO No. 298 on the granting, utilization and liquidation of cash advances to all officials and employees of the Municipality;
- b) instruct the Municipal Accountant to require all officers and employees who are still in the service to settle/liquidate all their outstanding cash advances by sending confirmation, notification or demand letters;
- c) in case of failure to settle/liquidate their cash advances, cause or order the withholding of the payment of their salaries as provided for under Section 9.3.2 of COA Circular No. 97-002 and impose the sanctions provided under the penal provision of Section 128 of PD No. 1445 and/or study the possibility of filing the appropriate charges to enforce settlement thereof in accordance with Section 9.3.3 of the same Circular and Article 217 of the Revised Penal Code;
- d) require strictly an Office Clearance from Money and Property accountabilities, pursuant to Sections 200 and 256, Vol. I of the Government Accounting and Auditing Manual from all personnel who seek retirement, resignation, transfer or claim for death benefits in order that all accountabilities could be appropriately settled;
- e) refrain from granting additional cash advances to any official or employee unless prior cash advance given to him is first settled or a proper accounting thereof is made, pursuant to Section 4.1.2 of COA Circular No. 97-002 dated February 10, 1997; and
- f) require the Municipal Accountant to attach the documents for the liquidation on the claims for reimbursement of the itinerants in case the

actual travelling expenses are more than the cash advances granted to avoid recording the liquidations separately in the General Journal.

3. The Municipal Accountant failed to set-up Real Property Tax/Special Education Tax Receivables at the beginning of the year, which is not in accord with Section 20 of the New Government Accounting System (NGAS) Manual, Volume I, thus, understating the receivable account as well as the deferred income account.

We recommended that the Municipal Mayor direct:

- a) the Municipal Treasurer to furnish the Municipal Accountant at the beginning of the year with a duly certified list of Real Property Taxpayers showing the names of taxpayers and the amount due and collectible for the year;
- b) the Municipal Accountant to set up RPT/SET Receivables in accordance with Section 20 of NGAS Manual, Volume I; and
- c) the Municipal Accountant to furnish the Provincial Accountant with a summary of JEVs showing the breakdown of the amount Due to LGUs.

Other observations are presented in Part II of the Report.

The above, together with other observations and recommendations contained in the report, were discussed with concerned municipal officials and staff during the Exit Conference conducted on June 14, 2017. Management's views and reactions were considered in the report, where appropriate.

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

Of the 16 audit recommendations contained in the Annual Audit Report of the Municipality of Ferrol, Province of Romblon for the year ended December 31, 2015, 7 were partially implemented and 9 were not implemented.