

## EXECUTIVE SUMMARY

### A. Introduction

The Municipality of Daet has been known by its name since 13<sup>th</sup> century during the Spanish Regime, It has become famous on its progressive development particularly the tourist attraction which has lured foreigners and other people to visit the place. Famed as the first town in the country to erect a monument in honor of the National Hero Dr. Jose P. Rizal, and has Bagasbas Beach known as one of the beautiful beaches in the Philippines and tagged as the 61<sup>st</sup> surfing point in the world. Classified as a first class municipality, it is the capital town among the 12 municipalities in the Province of Camarines Norte.

The town is the second smallest municipality in Camarines Norte in terms of land area. It has a total land area of 46 square kilometer with various land use such as: residential, commercial, agricultural and miscellaneous use. The area is divided into 25 barangays with 163 puroks.

### Audit Methodology and Scope of Audit

Financial and Compliance as well as Value for Money (VFM) Audits were conducted on the accounts and operations of the Municipality of Daet. The audit covered the transactions and operations of the municipality for Calendar Year 2016. The objective of the audit was to ascertain the fairness and reliability of the agency's financial position and results of operations. We included in this report the common audit thrust areas for Local Government Sector such as: - Submission of Accounts, Cash, Inventories, Property, Plant and Equipment (PPE), Liabilities, Expenses, 20 per cent Development Fund, Local Disaster Risk Reduction and Management Fund (LDRRMF) and Gender and Development (GAD).

### B. Financial Highlights

#### B.1 Financial Condition and Results of Operation

	CY 2016 (In Peso)	CY 2015 (In Peso)	Increase (Decrease)
<b>Financial Conditions</b>			
Assets	445,472,418.16	375,020,623.64	70,451,794.52
Liabilities	175,215,969.86	174,190,994.68	1,024,975.18
Government Equity	270,256,448.30	200,829,628.96	69,426,819.34
<b>Results of Operations</b>			
Income	259,673,354.24	232,433,632.73	27,239,721.51
Expense	214,034,898.30	187,359,735.78	26,675,162.52
Excess of Income	45,638,455.94	45,073,896.95	564,558.99

## B.2 Sources and Application of Funds

<b>General Fund:</b>			
Current Appropriations	263,314,780.63	307,183,443.64	(43,868,663.01)
Obligations Incurred	235,870,968.76	278,763,848.20	(42,892,879.44)
Unobligated Balances	27,443,811.87	28,419,595.44	(975,783.57)
<b>Continuing Appropriations</b>			
Allotments	1,550,561.10	7,402,740.39	(5,852,179.29)
Obligations	-	1,022,349.46	(1,022,349.46)
Balance	1,550,561.10	6,380,390.93	(4,829,829.83)
<b>Special Education Fund:</b>			
Current Appropriations	9,597,702.30	8,482,331.20	1,115,371.10
Obligations Incurred	8,557,895.79	7,243,447.50	1,314,448.29
Unobligated Balances	1,039,806.51	1,238,883.70	(199,077.19)

## C. Auditor's Opinion on the Financial Statements

The auditor rendered a qualified opinion on the fairness of presentation of the financial statements due to the unreconciled amount of ₱23,619,460.65 between the Property, Plant and Equipment (PPE) accounts (excluding Land, Land Improvements, Buildings, Other Structures and Construction in Progress) recorded in the books and the physical inventory report totalling ₱90,313,159.83 and ₱66,693,699.18, respectively. Absence of property numbers, acquisition dates, values/costs and other important data on various PPEs listed in the Report on the Physical Count of PPE (RPCPPE) as of December 31, 2016 hindered the reconciliation of the said report with the Accounting Office records. Also, the amount of the General Ledger (GL) balance and Notes to Financial Statements (FS) of the account Trust Liabilities-Local Disaster Risk Reduction and Management Fund (LDRRMF) showed a variance of ₱2.353 million. The inadequacy of the records did not permit us to apply alternative procedures to determine the validity of these accounts.

## D. Summary of Significant Observations and Recommendations

For the exceptions mentioned earlier, the Audit Team recommends the immediate reconciliation of their records on PPE through the conduct of a complete physical inventory taking of all its assets which should be reported through the preparation of correct and accurate RPCPPE. The Audit Team has discussed/communicated the observations and recommendations with the Auditee and that the latter's comments are incorporated to the report, where warranted.

The following are the notable observations and recommendations:

1. Despite of prior year's recommendation, still the collections were not remitted promptly by the collectors and the accountable forms issued to them were not monitored properly by the Municipal Treasurer, resulting to the accumulation of unremitted collections totaling ₱13,108,416.03 as of December 31, 2016.

We recommended that the Management:

- a. Require the Collectors for the immediate turn-over of all the collections for the day to the Municipal Treasurer;
  - b. Require the Municipal Treasurer to collect all unremitted collections from his collectors and deposit to authorized depository bank within the prescribed period; and
  - c. Require the Municipal Treasurer to comply with Sections 29 and 30 of Manual on New Government Accounting System (MNGAS) for LGUs, Volume I.
2. The accuracy of the Trust Liabilities-LDRRMF account reflected in the financial statements of the Municipality as of December 31, 2016 could not be ascertained due to the discrepancies noted in the General Ledger (GL) and Notes to the Financial Statements contrary to the provisions of COA Circular No. 2012-002.

We recommended that the Management require the Municipal Accountant to:

- a. Review the amounts/entries made in the GL of Trust Liability-DRMMF account and its details disclosed in the Notes to Financial Statements to report accurately the transactions and information for the DRRMF;
  - b. Transfer the cash, representing the unspent balance of LDRRMF for the current year, to Special Trust Fund under the account "Trust Liability-DRRMF" at the year-end; and
  - c. Prepare the proper accounting entries in accordance with the provisions of the COA Circular No. 2012-002.
3. The Municipality granted full Representation and Transportation Allowance (RATA) to concerned officials despite of the incurrence of absences contrary to Sections 7.1, 7.3 and 7.5 of the Local Budget Circular (LBC) No. 103 dated May 15, 2013, hence, resulted to excess payment totaling to ₱113,175.00.

We recommended that the Management:

- a. Strictly observe the grant of RATA and the maximum allowed rates in accordance with LBC No. 103 dated May 15, 2013; and
- b. Require the concerned department heads and local Sangguniang Bayan (SB) members to refund the excess RATA claimed totaling to ₱113,175.00.

4. Disbursements amounting to ₱232,755.98 were improperly charged to the Local Disaster Risk Reduction and Management Fund (LDRRMF) contrary to the provisions of the National Disaster Risk Reduction and Management Council (NDRRMC) and Department of Budget and Management (DBM) and Department of the Interior Local Government (DILG) Joint Memorandum Circular No. 2013-1 dated March 25, 2013, thus, funds that should be allocated and utilized for priority projects/activities as mandated, were depleted.

We recommended that the Management instruct the Municipal MDRRM Officer to ensure that all projects chargeable to the LDRRMF are in accordance with the guidelines. Likewise, the Annual Budget be carefully prepared and reviewed by the Municipal Budget Officer so that only appropriate disbursements will be charged against the said fund.

5. Expenses totaling ₱444,250.00 were improperly charged to Special Education Fund (SEF), contrary to Section 272 of Republic Act (R.A.) No. 7160 and Department of Education, Culture and Sports (DECS), DBM and DILG Joint Circular No. 1 series of 1998, thereby, funds that should be allocated and utilized for priority projects/activities as mandated, were depleted.

We recommended that the Management:

- a. Advise the members of the Local School Board, in the preparation of School Board budget to give priority to programs, activities and projects enumerated in Section 272 of the R.A. No. 7160 and Joint Circular No. 01, s. of 1998 of the DECS-DBM-DILG and therefore must utilize the proceeds of the SEF only for such purposes prescribed by law; and
  - b. Require the Bids and Awards Committee (BAC) to strictly follow to the provisions of R.A. No. 9184 and COA Circular 2009-001.
6. Procurement of hardware materials totaling to ₱1,299,989.28, which could have been collated as one transaction each, were splitted into different/separate transactions hence, not publicly bidded contrary to Section 54.1 of the Implementing Rules and Regulations (IRR) of R.A. No. 9184.

We recommended that the Management to;

- a. Strictly follow to the provisions of R.A. 9184; and
  - b. Stop the practice of resorting to splitting requisitions/contracts to circumvent existing laws or regulations on procurement.
7. Requests for quotation (RFQ) and notices of award for various small value procurement transactions with Approved Budget for Contracts (ABC) of above ₱50,000.00 each, were not posted in the Philippine Government Electronic Procurement System (PhilG-EPS)

10. The Gender and Development Plan and Budget (GPB) was not approved by the DILG Regional Office No. V contrary to Philippine Commission on Women (PCW), DILG, DBM and National Economic and Development Authority (NEDA) Joint Memorandum Circular (JMC) No. 2013-01, thus, planned GAD programs and activities as well as the accomplishments may not be within the context of the agency's mandate.

We recommended that the Management:

- a. Submit to GPB and GAD AR for FY 2016 to Provincial Planning and Development Office (PPDO) and DILG Regional Office No. V, respectively; and
  - b. Observe the schedule for GAD Planning and Budgeting in compliance with the JMC No. 2013-01 to facilitate timely submission to PPDO and the subsequent review and approval by the DILG Regional Office No. V.
11. The Municipality failed to fully utilize the funds subsidized by the Department of Social Welfare and Development (DSWD) and Philhealth Insurance Corporation (PHIC) leaving balances of ₱2,671,320.00 and ₱1,918,105.06, respectively, contrary to Section 309(b) of R.A. No. 7160, thus, deprived the constituents from the benefits which could have been derived from these funds.

We recommended that Management immediately utilize the trust funds subsidized by the national agencies such as DSWD and PHIC in compliance with Section 309(b) of R.A. No. 7160.

#### **E. Summary of Total Suspensions, Disallowances and Charges as of Year-End**

Particulars	Balance as of 01/01/16 (₱)	CY 2016		Balance as of 12/31/16 (₱)
		Issued (₱)	Settled (₱)	
Notice of Suspensions	-	-	-	-
Notice of Disallowances	1,000,000.00	-	-	1,000,000.00
Notice of Charges	-	-	-	-
<b>TOTAL</b>	<b>1,000,000.00</b>	<b>-</b>	<b>-</b>	<b>1,000,000.00</b>

#### **F. Status of Implementation of Prior Years' Audit Recommendations**

Out of the 39 audit recommendations embodied in the 2015 AAR, nine were fully implemented, 26 were partially implemented while the remaining four were not implemented.