

EXECUTIVE SUMMARY

I. INTRODUCTION

A. Creation and Mandate

The Municipality of Polangui is 429 years from its founding in 1584. In July 2005, it was reclassified to first class municipality and known as the Commercial Center in the 3rd District of the province of Albay with 44 Barangays. It is located in the Northeastern Quadrant of the 3rd District of Albay bounded on the North by the Municipalities of Libon, Oas and Ligao and on the West by the City of Tabaco and Municipality of Malinao. It has a land area of 14,530 hectares or 35,900 acres. The Municipality is 56 kilometers Northwest of Legazpi City, the Queen City of Bicol. Its trade and commerce is backed up by the six (6) government and commercial banks.

The Municipality exercises all the powers granted to it in the promotion of 'general welfare' of its inhabitants and undertakes the 'basic services and facilities' embodied in Section 17 (a) and (b) 2, i to xii, of the Local Government Code of the Philippines.

B. Financial Highlights

Shown below are the highlights of financial operations of the Municipality of Polangui, Albay for CY: 2013 with comparative figures for CY 2012:

Particulars	2013	2012	Increase (Decrease)	%
Total Income	P142,058,520.90	P124,133,532.69	P 17,924,988.21	14.44%
Total Expenditures	112,072,873.57	98,446,420.92	13,626,452.65	13.84%
Subsidies/Donations	12,557,405.61	11,312,571.95	1,244,833.66	11.00%
Net Income	27,716,347.19	26,723,904.45	992,442.74	3.71%
Total Assets	244,702,348.06	207,058,027.78	37,644,320.28	18.18%
Total Liabilities	94,355,558.66	74,489,797.91	19,865,760.75	26.67%
Total Equity	P150,346,789.40	P132,568,229.87	P17,778,559.53	13.41%

II. Scope of Audit

For the period January to December 31, 2013, we conducted our audit in accordance with laws, COA and INTOSAI standards and applicable Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. Our audit included examination on a test basis evidence supporting the account and disclosures in the financial statements. It also included assessment of accounting

principles used and review significant estimates made by the Auditee as well as evaluating the overall financial statement presentation.

III. Auditor's Opinion on the Financial Statements

We rendered a qualified opinion on the presentation of the Municipality's financial statements as of December 31, 2013 because the issuances of inventories in prior year in the amount of P730,446.13 was classified as expense during the year instead of classifying the same in the Prior Adjustment account, thereby overstating the expense account and understating the government equity account/retained operating surplus.

IV. Significant Audit Findings and Recommendations

Our significant audit findings and recommendations are summarized as follows:

- 1. The unutilized balances of Countryside Development Fund (CDF) and Priority Development Assistance Fund (PDAF) from CYs 2002 to 2012 amounting to P923,780.74 were not reverted to the unappropriated surplus of the General Fund and not remitted to the National Treasury, contrary to the ruling of the Supreme Court under G.R. Nos. 208566, 208493 & 209251, all dated November 19, 2013, thus, depriving the National Government from utilizing the same to other priority developmental programs/projects.*

We recommended that the Management immediately cause the reversion of all unutilized CDF and PDAF funds amounting to P923,780.74 to the General Fund of the National Government and its remittance to the National Treasury in full compliance with the Supreme Court ruling on the matter.

- 2. Issuances of Office Supplies, Drugs and Medicines, Accountable forms and Other Supplies in prior year in the amount of P730,446.13 were treated/classified as direct expenses in CY 2013 instead of debiting it to Prior Years' Adjustment account, contrary to Section 171, Vol. III, Manual on NGAS, thereby overstating the Other Supplies Expenses, Drugs and Medicines Expenses, Accountable Forms Expenses and Office Supplies Expenses and understating the Government Equity account.*

We recommended that the Municipal Accountant cause the immediate adjustment of the affected accounts by effecting the suggested accounting entry to ensure the fair presentation of the accounts in the financial statements.

- 3. The transactions pertaining to the Local Economic Enterprises (LEEs) of the Municipality were (a) not properly accounted as special accounts in the General Fund with its own complete subsidiary ledgers using the sub-codes for the special accounts, contrary to Section 313 of the Local Government Code of 1991 (RA 7160), and Sections 105, 107 and 108 of the Manual on the*

New Government Accounting System for Local Government Units, Vol. 1; (b) not reported at the end of the year in a post-closing trial balance; and (c) not supported with financial statements consisting of Balance Sheet, Statement of Income and Expenses and Statement of Cash Flows forming part as schedule of the General Fund trial balance, not in keeping with Section 110 of the same Manual, thus, we were unable to determine whether or not the income generated by these economic enterprises in the total amount of P8,620,226.52 were sufficient to meet their respective operating costs and did not provide adequate information as to the assets, liabilities and equity of each special accounts.

We recommended that the Municipal Accountant should a) properly maintain special accounts in the general fund for the economic enterprises of the municipality with complete subsidiary ledger for each LEE using the Sub-Codes for Special Accounts; b) prepare a post-closing trial balance for the special accounts maintained for the LEE; and c) prepare the financial statements consisting of the Balance Sheet, Statement of Income and Expenses and Statement of Cash Flows for the special accounts maintained for the LEE as supporting schedules to the General Fund trial balance and submit the same to the Audit Team for verification.

4. *Applications for renewal of existing business permit were not supported with Audited Financial Statements with a gross income prescribed by the BIR for the next preceding year and a sworn declaration of previous year's gross sales and receipts upon which the business tax may be based, contrary to Section 14 (1), a-2 (d), Revenue Code Ordinance 01, s. 2002 of LGU Polangui and Section 234, 2 (B) (e) and (h), Chapter 3, Book V, of the Local Treasury Operations Manual dated October 1, 2007, thus, precluded the Municipality from computing and collecting the correct business taxes from the taxpayers.*

We recommended for the Municipal Treasurer strictly enforce the Revenue Tax Code so that correct business taxes will accrue to the Municipality and be able to finance immediately other priority projects/programs/activities of the LGU.

V. Status of Implementation of Prior Years' Audit Recommendations

Of the 12 audit recommendations in prior years, eight (8) or 67% were implemented, three (3) or 25% were partially implemented and only one (1) was not implemented by management.