

## EXECUTIVE SUMMARY

### I. Introduction

Hinoba-an is a 1<sup>st</sup> class Municipality in the Province of Negros Occidental. It is the southernmost town of the province, politically subdivided into 13 barangays. Formerly known as Asia, it was renamed Municipality of Hinoba-an by virtue of Republic Act No. 2154 dated April 24, 1959. The municipality is headed by Honorable Mayor Ernesto A. Estrao with the assistance of his Vice-Mayor and eight (8) Sangguniang Bayan Members.

### II. Financial Highlights

#### a. Assets, Liabilities and Equity

The consolidated assets, liabilities and equity as of December 31, 2019 and 2018 of the Municipality are as follows:

	2019	2018	Increase/(Decrease)	Change
Assets	430,229,537.80	432,032,920.38	(1,803,382.58)	(0.42%)
Liabilities	209,001,268.73	233,366,399.80	(24,365,131.07)	(10.44%)
Equity	221,228,269.07	198,666,520.58	22,561,748.49	11.36%

#### b. Sources and Application of Funds

During the year, the Municipality realized a total revenue of P211,345,713.15. Details are shown below:

Gen. Fund	209,571,303.51
Special Education Fund	1,774,409.64
<b>Total</b>	<b>211,345,713.15</b>

The Municipality incurred an actual operating expenses of P200,151,191.49 during the year, as shown below:

Gen. Fund	198,215,878.42
Special Education Fund	1,935,313.07
<b>Total</b>	<b>200,151,191.49</b>

**c. Appropriation**

This year's total current appropriation totaled P210,432,979.97, as shown below:

General Fund	207,862,979.97
Special Education Fund	2,570,000.00
<b>Total</b>	<b>210,432,979.97</b>

**d. Obligations**

Total current obligations incurred during the year was P191,849,898.52, broken down as follows:

General Fund	189,279,898.52
Special Education Fund	2,570,000.00
<b>Total</b>	<b>191,849,898.52</b>

**e. Financial Ratios**

Quick Ratio	0.82 : 1
Current Ratio	1.05 : 1
Debt to Equity Ratio	0.94 : 1
Return on Asset	0.03 : 1

**III. Scope of Audit**

For Calendar Year 2019, we have conducted financial and compliance audit on the transactions and operations of the Municipality of Hinoba-an, Negros Occidental. We focused on the audit thrust for the Local Government Sector contained in COA-LGS Unnumbered Memorandum dated July 3, 2018, such as:

- Cash and Cash Equivalents
- Financial Liabilities
- Due from NGOs/POs
- Fund Transfers From National Government Agencies (NGAs)
- 20% Development Fund
- Solid Waste Management
- Gender and Development Fund

The objective of the audit was to ascertain the reliability of the Municipality of Hinoba-an's financial statements and to check the validity and propriety of some transactions.

## **Auditor's Opinion on the Financial Statement**

We rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of Hinoba-an, Negros Occidental for the year ended December 31, 2019, given that; a) there is a discrepancy amounting to P18,751,383.44 between the accounting records and the physical counts reports of the Property, Plant and Equipment account; b) unexpended/unobligated balance of P3,703,090.96 of the LDRRMF for Capital Outlay was booked up as expenses and liability resulting in the overstatement of both accounts; c) payables amounting to P49,389,314.06 were not supported with disbursement vouchers and do not have specific names of creditors rendering such accounts unreliable; and d) Cash in Bank account balance of P49,475,248.35 was not reconciled with bank balance thus, its correctness is doubtful.

## **IV. Significant Observations and Recommendations**

The following is the summary of significant observations and recommendations in the audit and/or evaluation of the operations of the Municipality of Hinoba-an for the year 2019.

1. Funds transferred to the Municipality of P27,836,386.00 from different sources do not have a Memoranda of Agreements (MOA)/Trust Agreement, contrary to COA Circular No. 2012-001, hence verification of the status of implementation of various programs and projects cannot be pursued and validated.
2. The outstanding balance of Due to NGA accounts amounting to P30,971,607.31 in the Trust Funds could not be disposed of or acted properly for lack of legal basis and relevant information in the subsidiary ledger.

We recommended that Management:

- a. Timely submits copies of MOA or Trust Agreement and other contracts to the Office of the Municipal Accountant and the Auditor for all funds transferred to the Municipality;
  - b. Require the Accounting Office to maintain Subsidiary Ledgers to record in detail the different balances of Due to NGAs and projects for a proper disposition of fund transfer to LGU.
3. Payables amounting to P49,389,314.06 were not supported with disbursement vouchers and do not even have specific names of creditors, contrary to Section 4(s) of the Manual on the New Government Accounting System for LGUs, Volume 1, rendering the payable accounts unreliable.

We recommended and the Management agreed to require the Municipal Accountant to:

- a. Record obligations incurred in the books of the LGU as payable only when the goods are accepted or services are rendered, and the corresponding bills are received from the contractor or supplier.
  - b. Require that obligations shall be covered with duly approved disbursement vouchers and supported with the required documents such as the Inspection and Acceptance Report and bills as received as a basis for recording of the payable accounts in the books.
4. Payables that have been long outstanding from 2 to 5 years amounting to P45,636,583.64 was not reverted to Government Equity, contrary to the guidelines prescribed under the DBM-COA Joint Circular No. 99-6 dated November 13, 1999, thereby, overstating the payable and understating the accumulated surplus/(deficit) accounts at year-end.

We recommended and the Management agreed to require the Municipal Accountant to:

- a. Revert to the general fund, the amount of P45,636,583.64 obligated as payable without proper documentation, and which had been outstanding for more than two years already in accordance to COA-DBM Joint Circular No. 99-6.
  - b. Henceforth, strictly comply with the regulation on the proper booking up of obligations according to Section 4(s) of the NGAS Manual, Volume I, to fairly present the Accounts Payable in the financial statements at year-end.
5. Outstanding receivables from rental of Heavy Equipment amounting to P1,240,224.85 remained uncollected, contrary to Section 64 of Government Accounting and Auditing Manual (GAAM), Volume I thus, affecting the liquidity of the agency and the viability of revenue operation.

We recommended that Management require the Accounting Office to enforce the collection of outstanding receivables by issuing demand letters to all debtors with past due accounts.

We also recommended that the LGU through the Sanggunian Bayan revisit the related Ordinance regulating the use and rental of heavy equipment and provide adequate provisions on the collection of receivables especially those past due accounts, and the imposition of penalties or sanctions against the defaulting debtors.

Furthermore, we recommended that the LGU establish a strong internal control as regards the collection of receivables to sustain the viability of revenue operation.

6. Long outstanding loans receivables, amounting to P1,260,795.00, remained uncollected, thereby affecting the continuity of livelihood programs, and depriving other beneficiaries of availing capital assistance from the Municipality.

We recommended that Management exert diligent efforts to collect the long outstanding receivables to sustain the continuity of the livelihood program, and locate the supporting documents necessary to establish the existence and validity of the receivable accounts, so that possible remedies maybe considered to enforce collection.

We also recommended that the Municipal Accountant maintain subsidiary ledgers containing the complete information of loans, to monitor collections of amortizations from concerned NGOs/POs and individuals.

7. The accuracy and reliability of the balance of PPE totaling to ₱414,690,748.95 could not be ascertained and validated due to unreconciled net difference of ₱18,751,383.44 between accounting and property records, contrary to Section 114 of Volume I of the Manual on the New Government Accounting System (NGAS).

We recommended that Management require the Accounting Office and Property Officer to undertake the required reconciliation of property records under Section 114 of Manual on NGAS, Volume I and effect the necessary adjustments to fairly present the said accounts in the financial statement.

We also recommended that the Property Officer determine ownership of all unrecorded property and equipment found during the physical count, prepare/issue Property Acknowledgement Receipt to the end-user of the item, and record the same in the PEC and RPCPPE. The RPCPPE should include a separate caption of the unrecorded property and equipment found in the station and this shall be the basis of the Accounting Office in recording the subject property and equipment in the books of accounts.

Furthermore, the Accounting Office and Property Officer investigate the noted differences and if found that these properties are missing, hold the accountable officer liable thereof.

8. Unexpended/unobligated balance of P3,703,090.96 of the LDRRMF for capital outlay was booked up as expenses and liability in the General Fund contrary to Section 5.1.11 of COA Circular No. 2012-002 dated September 12, 2012, resulting in the overstatement of expense and liability account in the same amount at year-end.

We recommended that Management require the Municipal Accountant to draw a journal entry voucher to correct the previous entries made on unexpended/unobligated capital outlay (CO) balance of the LDRRMF and henceforth, observe the proper accounting and reporting guidelines on the said fund.

9. The Report on Sources and Utilization of LDRRMF submitted by the agency was not in a prescribed format and was not certified by the Municipal Accountant as provided under Item 5.1.5 of COA Circular No. 2012-002 dated September 12, 2012, thus, the expenditures and balances reported thereon are not reliable.

We recommended that Management require the LDRRM Office to prepare and submit a duly certified Report on Sources and Utilization of DRRMF using the

prescribed format. Likewise, the LDRRM and Accounting Office to reconcile their figures for a fair presentation of reported balances in the FS.

10. Certificates of Title of ten (10) parcels of land purchased and were already fully paid by the municipal government were not yet processed, contrary to the provisions of Section 449 of the Government Accounting and Auditing Manual and Section 148 of COA Circular 92-386.

We recommended that Management exert effort on titling ten (10) parcels of land in the name of the municipal government. Likewise, for six other parcels of land which were not yet fully paid by the Municipality, require the seller to transfer the title in the name of the LGU before full payment is made.

11. Payments of Collective Negotiation Agreement (CNA) Incentives of ₱1,736,500.00 for CY 2019 is not supported with complete documents and is not under the procedural guidelines prescribed under the DBM Budget Circular No. 2019-5, dated November 7, 2019, resulting in the doubtful validity and propriety of reported disbursements.

We recommended that Management submits the lacking documents above-mentioned, otherwise be held personally liable for the amount disbursed as it is contrary to existing guidelines on the grant of CNA incentives. Henceforth, observe strictly the provisions of DBM Budget Circular No. 2009-5.

12. The year-end Bank Reconciliation Statements of all funds were not prepared and submitted to the Office of the Auditor in violation of Section 74 of PD No. 1445 and COA Circular No. 96-011 dated October 2, 1996, hence, the correctness of the Cash in Bank balance of P49,475,248.35 is doubtful and unreliable.

We recommended that Management require the Municipal Accountant to prepare the BRS and submit the same to the Auditor for verification and accurate reporting of the Cash in Bank balance in the FS.

13. Goods distributed to various recipients valued at P 1,116,760.66 are not supported with distribution lists contrary to Section 4 of PD No. 1445 thus, proof of receipts from recipients is not confirmed.

We recommended that Management submits the original copy of the distribution list of goods to the beneficiaries or recipients as a basis for confirmation. Henceforth, attached the itemized list of good distributed for ease of verification.

14. Payments of monetized leave credits to employees of the LGU in the total amount of P759,526.58 are not in accordance with Sections 22 and 23, Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292 or the Revised Administrative Code of 1987, thereby casting doubt as to the regularity and validity of the transactions.

We recommended that Management require the HRMO Officer to strictly comply with Sections 22 and 23, Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292 and Civil Service Commission Resolution No. 00034 and

ensure that the Application for Leave Form is fully accomplished as regards the monetization of leave credits.

15. Procedures in the release, utilization, reporting, and audit of expenses related to surveillance and police operations in the total amount of P88,000.00 was not in accordance with COA, DBM, DILG and DND Joint Circular No. 2015-01 dated January 8, 2015, thus, casting doubt on the propriety of disbursements.

We recommended that Management ensure that the proper procedures in the release, utilization, reporting, and audit of confidential expenses are observed and in accordance with Joint Circular No. 2015-01.

16. Unnecessary penalty charge was incurred for payment of loans in the amount of P58,048.68 contrary to Section 3.2 of COA Circular 85-55A, thus, reducing the funds and resources of the Municipality which could be used to support the developmental projects for its constituents.

We recommended that Management require the Accountable Officers to refund the amount of P58,048.68 for the penalty incurred by the Municipality. Likewise, loan payment shall be given priority and shall be paid in full on or before the due date to avoid the unnecessary penalty charges.

#### **V. Summary of Suspensions, Disallowances and Charges**

As of December 31, 2019, there are no outstanding Notices of Suspension, Disallowance and Charge.

#### **VI. Status of Implementation of Prior Year's Audit Recommendations**

Of the nineteen (19) audit recommendations contained in the CY 2018 and prior year's Annual Audit Reports, ten were implemented, eight were partially implemented and one remained unimplemented and reiterated in this year's report.