Republic of the Philippines
COMMISSION ON AUDIT
LOCAL GOVERNMENT SECTOR
OFFICE OF THE ASSISTANT COMMISIONER
Commonwealth Avenue, Quezon City, Philippines

MEMORANDUM

FOR : **All Regional Directors, Supervising Auditors, Audit Team Leaders and Audit Team Members of Local Government Units, Local Government Sector**

SUBJECT : Audit Instructions for CY 2014

DATE : March 26, 2014

To provide for a common audit thrust areas for CY 2014 audits on LGUs (Provinces, Cities, Municipalities and Barangays), as well as to facilitate the preparation, early submission, and enhancement of the substantive content of the CY 2014 AARs and AFR for LGUs, you are hereby directed to observe the following audit instructions:

A. Significant areas to be considered in audit

In addition to the areas identified by the regional offices in the course of its risk assessment of LGUs under their audit jurisdiction the following areas shall be focused in audit during the calendar year:

1. Accuracy of reported LGUs' accomplishments vis-à-vis major programs and projects as well as efficiency and economy in the implementation of the same

Accomplishments on the major programs and projects of LGUs should be looked into taking into consideration the amount appropriated and other resources for the purpose as well as constraints in case of low percentage of or non performance of the project. Comment on the efficiency of project implementation and effectiveness in attaining its purpose.

2. Allocations to Local Government Units (ALGU)

These include Internal Revenue Allotment (IRA), Share in the Utilization and Development of National Wealth, Share in the gross income taxes paid by all businesses and enterprises within the Ecozones, Share in Value Added tax and Tobacco Excise Tax.

The amount and utilization of these allocations should be verified. In particular, look if the purpose for which these allocations were given to LGUs have been fulfilled. In the case of *IRA* see if the same have used for basic services and facilities. Verify if it had been earmarked and used as collateral for loans the maturity of which is beyond the term of the official securing the same.

For LGUs with a *Share in the National Wealth*, verify whether receipts of Shares of LGUs in the national wealth, namely: mining taxes, royalties, forestry and fishery charges, and such other taxes, fees or charges, including related surcharges, interests or fines, and from its share in any co-production, joint venture or production sharing agreement in the utilization and development of national wealth within their territorial jurisdiction are accounted for and utilized in accordance Sec. 294 of RA No. 7160 or the Local Government Code.

Verify whether receipts of *Shares of LGUs from the Tobacco Excise Tax* are fully accounted for in the General Fund, and that expenditures therefrom are in accordance with the guidelines on the utilization of the fund. Use of the following criteria may be considered:

a. Republic Act No. 7171 dated January 9, 1992 entitled, "An Act to Promote the Development of Farmers in the Virginia Tobacco Producing Provinces"

b. Republic Act No. 8240 dated November 21, 1996, specifically on the use of the fund.

c. Paragraph No. 4.2 of Joint Circular No. 2009-1 dated November 3, 2009 of the Department of Budget and Management, Bureau of Internal Revenue and National Tobacco Administration on the distribution of shares of the LGUs.

For the *LGUs share from ecozones*, see DBM-DILG-DOF Joint Circular No. 99-2 while for the release of the *20% of the 50% share of the LGUs in the incremental collection of VAT*, see DBM-DOF-DILG Joint Circular No. 1-02 dated February 6, 2002.

3. Utilization of PDAF, DAP funds and other funds transferred to LGUs.

a. Verification should include prior years PDAF and funds for DAP if not included in the special audit conducted by the SSS. If not utilized (especially PDAF which has been declared unconstitutional by the Supreme Court of the Philippines) , see if the fund have been remitted/returned to the Department of Finance (DOF).

b. Fund Transfers to Non-Government Organizations/People's Organization

- Review compliance with the revised guidelines in the granting, utilization, accounting and auditing of the funds released to NGOs/POs as set forth under COA Circular No. 2007-001 dated October 25, 2007.

- In case the fund is released from one Government Organization (GO) to an LGU and later released to the NGO/PO, the auditor of the LGU shall confirm the same to the source GO, thru its COA Agency Auditor.

- Look into the compliance to the updated documentary requirements under COA Circular No. 2012-001 dated June 14, 2012, specifically on the release, implementation and liquidation of funds.

c. Fund Transfers to Other LGUs (from Provinces/Cities to Barangays)

- Review the compliance with the reporting and documentary requirements set forth under Item 3.1 of COA Circular No. 2012-001 dated June 14, 2012, specifically on the transfer, implementation and liquidation of fund transfer to LGUs, and with the provisions of the memorandum of agreement.

- The Auditor of the implementing LGU and the Auditor of the source LGU should coordinate to get information on fund transfers made to and from their respective auditee - LGUs to serve as reference in audit.

d. Fund Transfers of National Government Agencies (NGAs) to LGUs

- In case of LGUs that partner with NGAs in the implementation of programs, check compliance with the requirements of the governing guidelines and/or provisions of the memorandum of agreement.

4. Local Disaster Risk Management

a. Evaluation of efficiency, economy and effectiveness of local disaster risk management should be made in the light of the National Disaster Risk Reduction and Management Plan (NDRRMP), December 2011, and should include the following areas:
   - Disaster Preparedness particularly on the organizational structure and provision and uses of funds for the purpose
   - Disaster Prevention and Mitigation
   - Disaster Response
   - Rehabilitation and Recovery

b. Compliance with existing rules and regulations on the organization of local disaster council/groups/committees and provision of funds for local disaster risk reduction management, should also be looked into

5. Hiring of Casuals, Job Orders, Contractuals, Consultants

a. Review and evaluate the necessity, propriety and legality of hiring casuals, job orders, contractual and consultants.

b. Look into the programs, projects and activities, and accounts where payments are charged and accounted for. Take note of the LGUs' compliance on the personal services limitation provided in Section 325 of RA No. 7160.

c. Also, in view of the allegations of "**ghost employees**" in LGUs, validate the actual services rendered by these local government personnel and the propriety of the manner of payment of their salaries

6. **Environmental Compliance**

Assess the compliance of LGUs to basic environmental laws and regulations, among which are the following:

a. RA No. 9003 or the Ecological Solid Waste Management Act of 2000

b. DILG Memorandum Circular No. 2012-79 dated April 25, 2012, Re: Seal of Disaster Preparedness

7. **Credit Financing/Debt Servicing**

The necessity of obtaining a loan and the validity and viability of the project for which the loan is to be used/was used should be determined. For fully completed projects financed out of a loan, determine if the purpose/objectives of the project were met.

8. **Payment of Honoraria and Allowances**

Verify the legality and propriety of the payment of honoraria and allowances to LGU officials and personnel using applicable laws and issuances.

9. **Gender and Development**

Audit shall be in accordance with COA Circular No. 2014-001 dated March 18, 2014. The following should be looked into among others:

a. Whether or not a GAD Focal Point System has been established in the LGU;
b. Whether or not GAD Plan and Budget and other required GAD Reports have been submitted to the Philippine Commission on Women on due date;
c. Whether or not GAD has been mainstreamed in the LGUs operations;
d. Whether or not the establishment of "Violation Against Women's (VAWs) Desk " has been effected especially in barangays;
e. Whether or not activities for the establishment of a Local GAD Code have been initiated by the LGUs.
f. Whether or not GAD funds have been expended in accordance with the approved GAD Plan and Budget.

10. **Complete Submission of Accounts**

Conduct an inventory of the accounts that were already submitted. Demand from management the unsubmitted accounts that have reached their due dates citing Section 39 (1) (3) of P.D. 1445, Section 23 (1) (3) of The Administrative Code of 1987 and Art. 218 of Revised Penal Code.

Issue a Notice of Suspension or a Notice of Disallowance for accounts not submitted after 15 days after issuance of the AOM or pursuant to the demand letter and provide a corresponding finding in the Annual Audit Report, as appropriate.

11. **For ARRM, DILG PAMANA, SALINTUBIG and TISP Projects**

Verify compliance with Department of the Interior and Local Government (DILG) issuances on PAMANA, SALINTUBIG and TISP for ARMM Projects

a. DILG Memorandum Circular (MC) No. 2011-113 dated August 9, 2011, Re: Gawad Pamana ng Lahi: An Award for Exemplary Performance in Local Governance

b. DILG MC No. 2012-83 dated May 2, 2012, Re: Policy Guidelines in the Implementation of the Provision of the Potable Water Supply Project: 2012 Sagana at Ligtas na Tubig sa Lahat (SALINTUBIG) Program

c. DILG MC No. 2012-125 dated July 10, 2012, Re: Policies and Guidelines in the Implementation of Infrastructure Investment Project Basilan - Transition Investment Support Plan for ARMM

12. **Cash and Cash accounts**

Verify existence of large balances of the Cash in Vault account and the completeness of cash examinations conducted. Also, verify the bank reconciliation statements, the statements of accountability for accountable forms and the reconciliation statements of accountability. Identify the cause/s of the unrecorded long outstanding bank and book reconciling items and recommend appropriate action to address the causes/issues. Take note of the unrecorded disbursements as reconciling items.

13. **Cash Advances**

Look into the accumulation of outstanding cash advances. An aging schedule of the cash advances classified by account with the purpose of the cash advance indicated should be presented in support of the finding. The cause/s for non-liquidation should be stated and measures to address the same should be recommended. Look into the appropriateness of the items accounted for as cash advances. Identified cash shortages covered with cash examination reports should be reclassified to the appropriate accounts.

14. **Infrastructure Projects**

The following should be verified among others:

a. propriety of mode of procurement
b. Existence of project and/or percentage of accomplishment
c. Reasonableness of contract price

15. **Property, Plant and Equipment Account (PPE)**

a. Ascertain regularity of conduct of physical inventory of property
b. Verify completeness and accuracy of inventory report
c. Look into the existence of unserviceable property and the action taken by management to effect its disposal
d. See if physical inventory is reconciled with the books of accounts

B. Issuance of ND, NC and NS

As much as possible NS, NDs, and NCs shall be issued immediately after finding that the grounds for the issuance for the same exist. The same shall be disclosed in the AAR to be issued.

C. Adoption of the Philippine Public Sector Accountings Standard(PPSAS)

Pursuant to COA Resolution No. 2014-003 dated January 24, 2014 and immediately upon the issuance of an implementing guideline by COA, see that compliance with the same standards are being done by LGUs.

D. The Annual Audit Report (AAR)

1. Findings and recommendations should be written in a brief and concise manner. As much as possible, quotations of rules and regulations shall be avoided especially if the same are common and already known to prospective readers of the annual audit report. Managements' comments shall not be quoted verbatim but shall be summarized.

2. NSs/NDs/NCs issued shall be disclosed in the findings and observations.

3. An exit conference should be conducted before transmittal of the AAR.

4. The Independent Auditor's Report (IAR) should include the Emphasis of the Matter and Other Matter paragraphs, as appropriate, pursuant to the International Standard on Auditing 706. The date of the IAR should be the last day of fieldwork in the auditee. The opinion paragraph of the IAR should disclose the standards used in audit.

5. For purposes of the review of the AAR the following working papers shall be submitted to the SA:

a. Working Trial Balance or Working Balance Sheet and Working Statement of Income and Expenses
b. Consolidation Working Papers for the Consolidated Financial Statements
c. Other documents which the SA may require in his review

6. Electronic copies of AARs for submission should be exact copies of the transmitted reports. Transmittal letters, IAR, Statement of Management Responsibility should be scanned files with the signatures of the concerned officials. Files should be arranged as presented in the AAR.

7. The transmittal letters of the AARs shall present the significant findings and recommendations that need immediate action from the local government unit. Pursuant to COA Memorandum No. 2014-002 dated March 18, 2014, said transmittal letter should contain a statement requesting the agency to accomplish the Agency Action Plan and status of Implementation (AAPSI) form.

   Accordingly, the penultimate paragraph of the standard management letter is suggested to read as follows:

   > "We request that the recommended remedial measures be immediately implemented and we will appreciate being informed of the action(s) taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form within 60 days upon receipt hereof. "

For compliance, please.

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