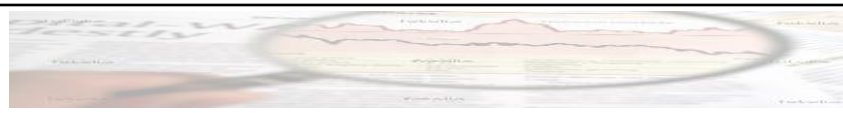
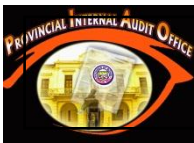




*Internal Audit Report*  
*of*  
**PROVINCIAL BUDGET &  
MANAGEMENT OFFICE**



**provincial internal audit office**



## **INTRODUCTION**

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The Provincial Internal Audit Office has performed and completed the internal audit for the operations of Provincial Budget and Management Office (PBMO). It was in compliance with the approved 2011 Annual Audit Plan of PIAO which identifies the six prioritized offices included in the plan. As a background, the PBMO is a department of the Provincial Government of Bohol tasked to provide effective and efficient budgetary services to all service departments, offices and hospitals, for a sound fiscal management with greater emphasis on the Value for Money. It is also tasked to provide the Governor, the Sangguniang Panlalawigan and other local officials, the necessary technical support to include the submission of an accurate and updated report on the balances of their respective appropriations.

Budget preparation, monitoring, and evaluation is a critical function of a local government unit because on it relies the assurance that government programs, projects, activities, and services, are funded and managed properly. The goal of the budget and management office, in this case, is to improve budgetary services so that fiscal management is improved.

In our report, we identified and highlighted those potential weaknesses that become apparent as a result of our audit engagement. We obtained comments from the auditee's appropriate staff on each audit findings and asked the management to give comments on our recommendations.

The audit field work was undertaken during the period May 3 to June 30, 2011. An exit conference, participated by the Acting-Budget Officer and all PBMO division heads has been conducted on July 19, 2011. (9:30 A.M. at the PBMO conference table)

## OBJECTIVES

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The audit objectives of this operations and compliance audit done by PIAO, as stated on PIAO's approved Annual Audit Plan, was mainly to:

- a) *Understand the budget preparation practices of the Provincial Government of Bohol; and*
- b) *Identify the potential/actual causes of delays, backlogs and inefficiencies.*

Since PIAO used Risk-Based Approach on its audit, PBMO has identified, summarized and prioritized the risks in attaining its goals. The priority risks identified and validated by the PBMO are the following:

- A.** *Administrative and/or criminal sanction on failure to submit the executive budget to the Sangguniang Panlalawigan on the prescribed deadline. The Deadline on the submission of budget proposals from different departments, satellite, offices, hospitals are not strictly followed causing the delay on the consolidation and finalization of the proposed Executive Budget. Delays might also be attributed by late issuance and or dissemination of the Budget Call to all departments.*
  
- B.** *Shortage of buffer fund due to under-collection of income estimates affecting diversely priority projects and the grant of other benefits to employees. One of the important roles of the PBMO is to ensure that savings out from the appropriated object of expenditures can be generated efficiently. This role has been clarified to all departments using the "Value for Money Principles" in relation with implementation of the approved Austerity Measures of the Province. Aside from the savings mentioned, the unexpended appropriation for 5% Calamity which will eventually form part of the Surplus at the end of the year played a very significant contribution in attaining the goal of covering up budgetary deficiencies. However, the benefits that could be derived from said Fund, has now been restricted under Republic Act No. 10121, putting it into Trust Fund Account for five (5) years.*

Added to PBMO's identified risk is the risk on loss of government resources. It is an inherent risk to all offices. Petty cash audit and actual cash count has been conducted to address this inherent risk.

## SCOPE

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This internal audit of PBMO covered both operation and compliance audit. Operation audit with regards to assessing the buffer funds for three comparative periods (2008, 2009 and 2010). Compliance audit was made to assess on the timely-submission of budget proposal from PGBh offices/hospital and the Annual Budgets from the 47 municipalities and 1 city. The period covers from the years 2009, 2010, and 2011. In order to evaluate the operation of PBMO and to ascertain whether the office has complied with applicable laws, rules and regulations, our audit procedures included the following:

- Interview management staff and employees to obtain adequate understanding on the organizational structure, processes and procedures, and roles and responsibilities of personnel.
- Conduct of individual interviews to develop an understanding on the key processes and activities that relate to the four phases of budgeting process, including the organizational structure, job description, and other relevant documentation to identify the major aspects on budgeting processes.
- Prepare process flowchart/process-mapping the identified procedures.
- Walkthrough on the flowchart – interview with selected employees involved in the process to determine if the flowchart accurately describes the flow of work in the Budget Office.
- Familiarization and understanding on the Budget Operations Manual for Local Government Units.
- Surprise cash counts and Internal Control Questionnaire
- Examination of records and documents particularly in obtaining the dates of receipt and dates released of documents.
- Analytical review procedures on determining the days delayed.

## EXECUTIVE SUMMARY

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The Provincial Government of Bohol, under the leadership of Governor Edgardo M. Chatto, aims to institute governance reforms in the provincial bureaucracy. With the all-out support of the Aus-Aid Provincial Road Management Facility (PRMF Project) and being one of the project's incentive targets, an internal audit for the Provincial Budget and Management Office was set as among the six prioritized offices of the 2011 activities of the Provincial Internal Audit Office (PIAO). Sometime in November 2010, a risk assessment workshop was conducted which served as the basis in the formulation of a Risk Assessment Report that contains the risk matrices of PBMO and five other offices. Since risks were already determined, the internal audit focused on the identified high risk areas. In order to assess the risk identified, the PIAO conducted an operation and compliance audit.

In carrying-out the audit, three areas were given primary concern. These areas were related to the identified priority risks validated by PBMO key personnel. These areas include the (a) *delays in submission of Annual Budgets*, (b) *Shortage of Buffer Funds*, and (c) *Use of Resources*. These three were then the basis in formulating the audit objectives.

Work Programs have been prepared to address each of these three areas identified. Multiple sources of information and data were used to support the findings and recommendations i.e.:

### ***DELAYS IN THE SUBMISSION OF ANNUAL BUDGETS***

#### ***From PGBh Departments/Offices/Hospitals***

PGBh offices prepare their respective proposed annual budgets and submit it to PBMO for review and consolidation before the preparation of the Budget Message and submission of Executive Budget to the SP. The major risk identified and validated on these processes is the administrative sanction due to the delays in submission. To identify the causes of such delays, an examination on the records to obtain the dates of submission of all PGBh offices were done for the years 2009, 2010, and 2011.

Generally, our examination on the available data pertaining to the budget preparation process has revealed that certain offices and the 10 devolved hospitals of the Province of Bohol incurred delays in the submission of their proposed budget proposals. It can possibly affect the time period given to

PBMO in consolidating all the budget proposals. There was also unavailability of dates of receipt for some offices.

It was also observed that there was delay in the issuance of Budget Call for 2011. Budget Call, which is issued by the LCE stipulating the indicative dates for the budget preparation processes, was issued **26 days delayed**. It was already issued on July 26, 2010 instead of the standard date indicated on the Budget Preparations Manual for LGU which is from June 15-30. It usually follows that when a Budget Call is issued late, the deadline indicated on it for the budget preparation processes were also moved forward as compared to the standards. Budget Call for 2011 is an example. Conduct of the Budget Forum was done **July 26** instead of July 5 as per standard. Deadline for the submission of Budget Proposal was already **August 13**, instead of July 15 as per standard.

#### ***From 47 Municipalities and 1 Component City***

The 47 Municipalities and 1 Component City submit their approved Annual Budgets to SP for review. It is then forwarded by the receiving SP Secretariat to the SP Committee on Appropriation. The SP Committee on Appropriation is the one that endorses the Annual Budgets to PBMO through transmittals. PBMO Budget Review Division then will perform budget examination and review which includes the approval or disapproval of the submitted Annual Budgets and renders technical assistance to the Municipal Budget Officers on their budget preparation. It was observed that The Budget Review Division reviewed the Annual Budgets from the different Municipalities within the **Reglementary Period of 90 days** from date of receipt.

Although it did not go beyond the Reglementary Period of review which is 90 days from receipt of copies of such ordinances, there were municipalities that submitted their Annual Budgets already during the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of the budgeted year.

#### ***SHORTAGE OF BUFFER FUNDS***

The PBMO has a role of ensuring that savings out from the appropriated object of expenditures can be generated efficiently. It is the office that performs and

controls the whole budget execution process. However, the utilization of the office budget is still under control of the respective office/department heads.

The lower expense efficiency rating of the province is also an indication of a good budgeting system and it is the result of the observance of the Value for Money and Management by Outcomes in the disbursement of funds. It is therefore the concern of the Budget Office to have a net surplus which will be forwarded as a beginning balance of the next year's budget. To be assured of this surplus, the PGBh established a policy of retaining 10% from the Maintenance and Other Operating Expenses (MOOE) budget as savings to back up the unrealized portion of the estimated income and unforeseen expenditures in the budget year, keeping in tract that the PGBh's expenditures should not exceed allotment.

### **PETTY CASH OPERATIONS**

In order to address the inherent risk of all offices on the loss of government resources, a surprise cash count was made to the petty cash custodian of the PBMO. This was primary made to assess the office' adherence to the General Guidelines and Internal Control Features for Petty Cash Fund, its related policies and operating procedures. Generally, our examination on the operation of Petty Cash Fund in PBMO has observed that PBMO has not fully complied with the existing written policy/General Guidelines and Internal Control Features for PCF. The Systems Guidelines and internal processing flow suggested by PAccO as being stipulated in Section 48 Volume I of NGAS Manual was not fully observed and implemented. In order to determine if petty cash on hand was properly stated, a surprise cash count was made in the presence of the Petty Cash Custodian and her delegated personnel. Our cash count showed that the total unreplenished receipts and the replenishment voucher on process exceeded the total Petty Cash Fund advanced of Php 10,000.00. Be it noted that the petty cash account was accounted for using the Imprest basis, that is, at any given time, the amount of total cash on hand and the unreplenished disbursements should equal the established amount of the fund.

Recommendations were made to address each of the findings noted. As a response, the management were required to formulate its responses and action plan on the concerned findings and recommendations. Their responses and plans were then incorporated in our recommendations. This could help minimize, if not eliminate the risks previously identified.