

## EXECUTIVE SUMMARY

### A. Introduction

The Municipality of Luna came into existence by virtue of Executive Order No. 200 dated October 16, 1929 issued by the late Governor General Leonard Wood upon the petition of early settlers of the Municipality. Pursuant to the said order, the newly created municipal district had as its first name ‘*Macatel*’, which means “*itchy water*”. Luna as it is now called derived its name in honor of the late Filipino hero, General Antonio Luna, one of the greatest Ilocano patriots.

The Municipality is classified as a second class municipality located in the northern part of the Province of Apayao. It is approximately 1,475 kilometers direct distance from Pamplona, Cagayan in the northwest, on the south by the Abulug River and by the unknown creeks below the steep side of Cordillera on the West.

The Municipality is divided into twenty-two (22) regular barangays and one (1) administrative barangay.

### Audit Methodology and Scope of Audit

A financial and compliance audit was conducted to ascertain the propriety of the financial transactions and observance of the agency with prescribed rules and regulations. A value for money audit was likewise conducted to determine whether the programs, projects and activities for the year were implemented in an efficient, economical and effective manner.

The audit was focused on the various audit thrusts/issues issued by the Local Government Sector of the Commission on Audit. Walk through, analysis of data, interview with concerned officials and employees, and other audit techniques that were necessary were employed in the conduct of audit.

### B. Financial Highlights

Luna is greatly dependent on its Internal Revenue Allotment which composed of 93.37% of the total revenue. Other sources of funds include local taxes, permits and licenses, service income and other income.

The financial condition and results of operations of the Municipality as compared to that of the preceding year is detailed as follows:

Particulars	2017	2016	Increase(Decrease)
<b>A. Financial Condition</b>			
Assets	₱281,136,157.63	₱228,141,143.26	52,995,014.37
Liabilities	67,613,638.27	84,923,308.38	(17,309,670.11)
Government Equity	213,522,519.36	143,217,834.88	70,304,684.48

Particulars	2017	2016	Increase(Decrease)
<b>B. Result of Operations</b>			
Income	₱148,490,753.17	₱130,221,366.05	18,269,387.12
Expenses	91,204,375.59	80,824,087.04	10,380,288.55
Excess of Income	57,286,377.58	48,753,823.40	8,532,554.18

Moreover, the comparative presentation of the sources and application of fund is as follows:

Particulars	2017	2016	Increase(Decrease)
<b>A. Sources of Funds (Appropriation)</b>			
Personal Services	₱60,412,799.09	₱49,405,836.05	₱11,006,963.04
MOOE	51,121,824.91	52,426,883.17	(1,305,058.26)
Capital Outlay	33,180,531.00	23,176,700.00	10,003,831.00
<b>Total</b>	<b>₱144,715,155.00</b>	<b>₱125,009,419.22</b>	<b>₱19,705,735.78</b>
<b>B. Application of Fund (Obligation)</b>			
Personal Services	₱50,358,314.09	₱48,187,301.70	₱2,171,012.39
MOOE	31,926,657.50	26,568,659.74	5,357,997.76
Capital Outlay	12,484,880.31	6,349,174.05	6,135,706.26
<b>Total</b>	<b>₱94,769,851.90</b>	<b>₱81,105,135.49</b>	<b>₱13,664,716.41</b>

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

The auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality due to the unreconciled variance amounting to ₱7,974,588.31 between the financial statements and the Subsidiary Ledger (SL) and the recognition of Accounts Payable totaling ₱30,208,997.73, of which services were not yet rendered or goods were not yet delivered.

### D. Summary of Significant Observations and Recommendations

We commend Management for duly withholding and remitting the PHIC, GSIS and HDMF premiums and loan payments. However, the following significant observations were noted during the year and corresponding measures were recommended:

- 1) The Due to National Government Agencies (NGAs) account amounting to ₱21,115,783.73 was unreliable due to unreconciled variance between the general ledger and the subsidiary ledger which is not in accord with the qualitative characteristic of a financial reporting.

We recommended that Management, thru the Municipal Accounting Office, to reconcile the discrepancy between the two ledgers. If the unreconciled balance is carried over from previous years, maintain this balance then work backwards.

- 2) The remittances to other Local Government Units (LGUs) of their shares from local collections totaling ₱3,499,273.25 were not in accordance with Section 271 (d) of RA 7160 and Section 36 of COA Circular 92-382, thus, depriving these LGUs on the immediate utilization of the funds.

We recommended that the Municipal Treasurer to monitor closely the prompt transmittal of reports to the accounting office to facilitate the prompt preparation of remittances to the other LGUs.

- 3) The supporting documents of contracts totaling ₱48,639,121.95 were incomplete contrary to Item 3.1.2 of COA Circular 2009-001 dated February 12, 2009, precluding the proper evaluation of the regularity of the payment.

We recommended that Management to submit the disbursement vouchers completely supported with the required documents.

- 4) The performance securities of contracts totaling ₱29,000,170.34 were not posted within the period required by Sections 37.2 and 39.1 of the 2016 Revised Implementing Rules and Regulations (IRR) of RA 9184.

We recommended that Management require the performance security before the entering into a contract agreement with the winning bidder.

- 5) The bid opening for the Construction/ Improvement of Various Barangay Projects – Package IX with an Approved Budget for the Contract (ABC) of ₱562,103.90 was irregularly postponed contrary to Section 29 of the 2016 Revised IRR of RA 9184.

We recommended that Management adhere to the requisite provisions of RA 9184 on the postponement of bid opening.

- 6) Various programs/projects/activities of the Municipality for CY 2017 totaling ₱22,173,670.43 were not implemented and/or accomplished, thereby depriving the constituents of the immediate benefits that could have been derived therefrom, contrary to Section 17 b (vii and viii) of the Local Government Code.

We recommended that Management fast track the implementation of priority programs and projects for the benefits of its citizens. In the event that there was physical but no financial accomplishment, this should be disclosed in the accomplishment report of Management for validation.

- 7) The municipality failed to withhold the creditable income tax (CIT) and final Value-Added Tax (VAT) amounting to ₱98,657.77 for the payment of fuel in CY

2017 contrary to Revenue Memorandum Order (RMO) No. 23-2014 dated June 20, 2014, thus funds due the National Government were not immediately realized.

We recommended that Management direct the Municipal Accountant to deduct the creditable income tax and final VAT from payments to suppliers as provided under RMO No. 23-2014.

- 8) Despite the absence of the sex disaggregated data, Municipality of Luna was able to mainstream Gender and Development (GAD) PPAs totaling ₱3,887,932.00 which are responsive to the GAD issues of the Municipality in support to PCW-DILG-DBM-NEDA Joint Circular No 2013-01.

We commended the Municipal Focal Point System for addressing GAD issues and concerns of the Municipality. But, still, we recommended that the Focal Point System establish the Municipal GAD data base in order to identify more gender issues and concerns that need to be addressed.

#### **E. Settlement of Suspensions, Disallowances and Charges**

The balances of suspensions, disallowances and charges as summarized in the Statement of Audit Suspensions, Disallowances and Charges (SASDC) as of December 31, 2017 are as follows:

<b>Issued</b>	<b>Beginning Balance (Jan. 1, 2017)</b>	<b>Total Issued for CY 2017</b>	<b>Total Settlements for CY 2017</b>	<b>Ending Balance (Dec. 31, 2017)</b>
Notice of Suspension	₱7,177,007.91	₱4,477,397.50	₱7,979,281.94	₱3,675,123.47
Notice of Disallowance	8,294,187.40	7,657,106.10	343,578.40	15,607,715.10
Notice of Charge	0.00	0.00	0.00	0.00
<b>Total</b>	<b>₱15,471,195.31</b>	<b>₱12,134,503.60</b>	<b>₱8,322,860.34</b>	<b>₱19,282,838.57</b>

In addition, booked disallowances in the amount of ₱513.25 pertaining to those issued prior to the 2009 Rules and Regulations on the Settlement of Accounts (RRSA) remained unsettled.

We recommended that management require the concerned officials and employees to settle promptly their suspensions and disallowances.

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

Out of the 32 audit recommendations embodied in the CY 2016 Annual Audit Report, thirteen (13) were fully implemented, thirteen (13) were partially implemented and six (6) were not implemented.