

## EXECUTIVE SUMMARY

### A. Introduction

#### 1. Agency Profile

Tuao is a 1<sup>st</sup> class municipality situated in the western part of Cagayan Valley called the Itawes Region and composed of 32 barangays. The Municipality which is under the third Congressional District of Cagayan has a population of 57,154 people according to the 2007 National Statistics Office census. The recorded history of Tuao began in 1604 when founded by the Spanish Civil Government.

For CY 2017, the Municipality of Tuao had a total of 382 personnel complement, consisting of 57 permanent, 11 elective, 8 co-terminus, 16 casual, 10 consultants, 10 contract of service and 270 job order status.

#### 2. Scope of Audit

The audit covered the accounts and operations of the Municipality of Tuao, Cagayan for CY 2017 and was aimed at determining whether management presented fairly the financial statements of the Municipality in adherence to the generally accepted accounting principles; whether prevailing laws, rules and regulations have been complied with; and funds were utilized in the most efficient, effective and economical manner. Financial and compliance audits were conducted to achieve these audit objectives.

### B. Financial Highlights

The highlights of the financial position, financial performance, appropriations, allotments and obligations of the Municipality for the year ended December 31, 2017 with comparative figures for CY 2016, are as follows:

	2017	2016	Increase (Decrease)
<b><u>Financial Position</u></b>			
Total Assets	₱342,802,763.97	₱289,507,773.95	₱ 53,294,990.02
Total Liabilities	₱ 43,602,894.18	₱ 34,231,748.27	₱ 9,371,145.91
Total Government Equity	₱299,199,869.79	₱255,276,025.85	₱ 43,923,843.94
<b><u>Financial Performance</u></b>			
Total Income	₱169,086,694.85	₱157,712,545.29	₱11,374,149.56
Total Expenses	₱127,582,393.46	₱132,995,224.08	₱(5,412,830.60)
<b><u>Appropriations, Allotments and Obligations</u></b>			
Total Appropriations – Current	₱317,347,170.49	₱165,410,855.43	₱151,936,315.06
Total Obligations – Current	₱135,214,886.11	₱116,245,560.69	₱ 18,969,325.42
Total Appropriations – Continuing	₱ 56,951,950.51	₱ 30,432,779.18	₱ 26,519,171.33
Total Obligations - Continuing	₱ 22,970,079.33	₱ 8,407,956.14	₱ 14,562,123.19

The table below presents the fund transfers received by the Municipality from other agencies totaling ₱37,455,100.00 with comparative figures for CY 2016. There were no funds transferred to other agencies during the year.

	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease)</b>
<b><u>Funds Received from:</u></b>			
National Government Agencies (NGAs)	₱37,316,900.00	₱26,934,896.19	₱10,382,003.81
Local Government Units	87,000.00	-	87,000.00
Non-Government Organizations/Peoples Organizations (NGOs/POs)	51,200.00	-	51,200.00
<b>Others</b>	-	300,000.00	(300,000.00)
<b>Total</b>	<b>₱37,455,100.00</b>	<b>₱27,234,896.19</b>	<b>₱10,220,203.81</b>
<b><u>Funds Transferred to:</u></b>			
NGAs	-	-	-
Local Government Units	-	-	-
NGOs/POs	-	-	-
Others	-	-	-
<b>Total</b>	<b>₱ -</b>	<b>₱ -</b>	<b>₱ -</b>

### **C. Independent Auditor's Report on the Financial Statements**

The Auditor rendered a Qualified Opinion on the fairness of presentation of the financial statements of the Municipality of Tuao for the year-ended December 31, 2017 due to the following:

1. The General Services Office did not conduct a physical count of the Property Plant and Equipment (PPE) with carrying amount of P201,644,131.76 as of year-end of CY 2017 hence, propriety and reliability of the accounts could not be ascertained which is not in accordance with Sections 119, 120 and 124, Volume I of the Manual on New Government Accounting System (NGAS) for Local Government Units (LGUs) and Section 111 of Presidential Decree (P.D.) No. 1445. Likewise, the PPE account balances were not supported by subsidiary ledgers thereby rendering the accounts unreliable.

We recommended that an Inventory Team be created to conduct physical count of all properties and prepare the necessary reports. Also, require the Municipal Accountant and the Supply Officer to reconcile their balances of every PPE account to have a reliable and accurate balances in the financial reports. Further, we also advised Management to prepare subsidiary ledgers to support balances for each PPE account.

2. The cost of supplies and materials in the total amount of P14,408,292.16 procured in year 2017 were treated as outright expense instead of using the “Inventory” account, which is not in accord to Sections 51 and 114, Volume 1 of the Manual on NGAS for LGUs, thus, the asset and expense account is misstated.

We recommended Management to:

- a. direct the Municipal Accountant adopt the perpetual inventory method for supplies and materials;
  - b. provide budget for storage for the supply requirements, otherwise, if no available storage area is available, we recommended to that control procedures be established to regulate the issuance to the end-users within a month; and
  - c. a central procurement system may be introduced by establishing the actual needs of each section offices as documented in the Annual Procurement Plan.
3. There is an un-reconciled difference between the Cash in Bank accounts in the General Ledger and in the bank statements amounting to P20,143,083.43 as of December 31, 2017 due to the non-preparation of monthly Bank Reconciliation Statements (BRSs) by the Accounting Office which is not in compliance to Section 3 of COA Circular 96-011, thus, the reliability and accuracy of the Cash in Bank – Local Currency Account with a total balance of ₱129,257,884.42 cannot be verified.

We recommended that the Municipal Accountant give priority to the preparation and submission of the required Bank Reconciliation Statements for all bank accounts and make the necessary adjustments to present the correct balance of Cash in Bank account as at year-end given that the “Cash in Bank” account represents a significant portion of the total assets of the LGU.

#### **D. Summary of Significant Observations and Recommendations**

1. Twenty three (23) parcels of untitled land/lots acquired through purchase with an assessed value of P1,401,095.00 remained untitled contrary to Section 148 of COA Circular 92-386 dated October 20, 1992, Section 23(2), Title I-Book-V of the 1987 Administrative Code, thus management’s assertion of full ownership thereof could not be ascertained.

We recommended that the General Services Office produce necessary documents needed in the processing of titles to ensure smooth processing with concerned government agencies. We further advised the Management to assign one employee who will be solely in charge in the processing of papers or documents needed in the titling to facilitate prompt completion thereof, and to provide

appropriations of fund intended for the titling of said lands in the name of the Municipality.

2. A total of ₱19,754,642.00 share from the Burley and Native Tobacco Excise Tax from prior years remained unreleased by the Department of Budget and Management (DBM) due to the Municipality's non-submission of request and other supporting documents required by Local Budget Memorandum (LBM) Nos. 71 dated September 21, 2015, 72 and 73 both dated March 08, 2016 for the release of the funds resulting to delay in the program implementation that could enhance the quality of agricultural products and increase the earning capacity and productivity of farmer constituents.

We recommended that Management:

- a. assess the present situation of tobacco farming in the Municipality and identify the immediate needs of the farmers. After which, devise programs, projects and activities (PPAs) that could address the issues and concerns identified and include such PPAs in the Annual Investment Program; and
  - b. strictly comply with the prescribed documentary and procedural requirements for the release of the share from excise tax of the Municipality from the Department of Budget and Management.
3. Incomplete bidding documents were submitted for the four (4) infrastructure projects with a total contract cost of ₱5,790,133.46 funded out of the 2012 Share from Tobacco Excise Tax which is not in accord with the provisions of the Revised Implementing Rules and Regulations (IRR) of Republic Act No. 9184 and the Philippine Bidding Documents (PBD) prescribed under Government Procurement and Policy Board (GPPB) Resolution No. 06-2010 dated December 17, 2010.

We recommended that Management submit the identified lacking documents to support the public bidding conducted and strictly observe the documentary and procedural requirements of the Procurement Law to preclude the issuance of Notice of Suspension and/or Disallowance.

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

Out of the 26 audit recommendations embodied in the 2016 Annual Audit Report, ten (10) were implemented, nine (9) were partially implemented and seven (7) were not implemented.