

## EXECUTIVE SUMMARY

### A. Introduction

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The Municipality was created by virtue of Executive Order No. 269 by then President Elpidio Quirino on September 28, 1949. It is a 3rd class municipality located on the southern part of Isabela. It has a total land area of 27,840 hectares more or less that traverse the Cagayan River. Estimated population is at 24,818 as of the latest local census. It consists of 23 barangays. Agriculture is the main source of income so farming is the dominant economic activity of the people. The municipality is popular for its abundance of banana and native mango. San Agustin is also known as the home of mestizo "Murrah" buffaloes and is branded as the "HOME OF THE NUANG FESTIVAL." Hence, every September it celebrates this festivity which coincides with the town's founding anniversary.

The municipality is presently working on its additional territory under the DENR Administrative Order No. 4-1915.

At present, there are 239 officials and employees in the LGU consisting of eleven (11) elective officials; fourteen (14) appointive officials; forty five (45) rank and file; two (2) co-terminus and one hundred forty seven (167) job orders.

The audit covered the accounts and operations of the municipality for the year 2017 and was aimed at determining whether 1) management presented fairly the financial statements of the municipality in adherence to the Philippine Public Sector Accounting Standards; 2) whether prevailing laws, rules and regulations have been complied with; and 3) whether funds were utilized in the most efficient, effective and economical manner. A financial and compliance audit was conducted to achieve these audit objectives.

### B. Highlights of Financial Information

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Presented below is the financial highlights of the Municipality for CY 2017 as compared to the figures of CY 2016:

	CY 2017	CY 2016	% of Increase (Decrease)
Assets	P200,590,997.87	P163,500,705.19	22.69%
Liabilities	78,504,016.90	63,596,276.87	23.44%
Equity	122,086,980.97	99,904,428.32	22.20%
Income	106,534,195.81	94,164,022.67	13.14%
Expenses	86,479,515.03	67,326,864.33	28.45%
Appropriations -			
Current	104,203,960.00	92,819,110.00	12.27%

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

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The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of the Municipality of San Agustin, Isabela for calendar year 2017 in view of

the significant effects of the errors and deficiencies noted in account balances as discussed in detail in Part II of the report summarized as follows:

<b>Finding No.</b>	<b>Nature of Deficiency/ies</b>	<b>Accounts Affected</b>	<b>Amount Involved</b>	<b>Recommendations</b>
4	Reconciling items in Bank Reconciliation Statements were not adjusted in agency's book.	Cash-in-bank-LCCA	44,926,171.57	The agency should reflect in the agency books the P2,719,068.34 as adjustments in the affected accounts.
4	Unreconciled balances of Cash in Bank-LCCA and Cash in Treasury presented in Financial Statement as against General Ledger (GL)	Cash-in-bank-LCCA	44,926,171.57	OIC-Municipal Accountant to account for the differences and effect adjustment/s, if necessary and general ledger must be filled up correctly and updated regularly.
		Cash in Treasury	8,099.72	
6	Unreconciled balance of Advances to Officers and Employees presented in FS/GL with the total balances of Subsidiary Ledger.	Advances to Officers and Employees	26,790,205.94	Identify the cause or reason of the differences and make the necessary adjusting entries, if any.
		Other Receivables	4,894,377.33	
9	Material net difference between reciprocal accounts.	Due from Other Funds	6,371,216.20	Prepare a reconciliation report of reciprocal accounts and take up the necessary adjustments in the books of accounts to ensure that all reconciling items are adjusted on timely basis.
		Due to Other Funds	2,932,867.91	
12	Unreconciled discrepancy of PPE accounts between	PPE accounts	80,652,473.08	Prioritize the reconciliation of balances between

	accounting and property records.			the accounting records and RPCPPE. Prepare adjusting entries, if any, to reflect the correct balance of the affected accounts.
13	Accuracy of the reported balance of Biological assets be ascertained due to its non-movement during the year and even in previous years.	Biological Asset	565,996.00	Assess the nature of the biological assets held by the Municipality. Thereafter, adopt an accounting policy that best suits the Municipality's biological assets.
14	Discrepancy in the amount presented in the FS and SL of various payable Accounts.	Accounts Payable	737,444.84	Exhaust all possible remedies to reconcile the balances of those payable account in which SL is maintained. Prepare necessary adjusting entries, if any.
		Due to Pag-Ibig	188,763.74	
		Due to Philhealth	1,393,748.25	
		Due to Other Funds	928,717.91	
16	Unutilized LDRRMF for CY 2016 and 2017 not transferred to Trust Liability.	Trust Liability – LDRRMF	3,953,466.18	OIC-Municipal Accountant to make the necessary adjustments to transfer the unutilized balance of LDRRMF to Trust Liability – DRRMF account under the Trust Fund account.
29	Unrecorded Notice of Disallowance that becomes final and executory.	Receivable – Disallowance/Charges	1,422,000.00	OIC-Municipal Accountant to make the necessary adjustment in the

	Unrecorded settlement of disallowance.		55,000.00	recording of the settlement and ND that becomes final and executory.
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#### **D. Summary of Significant Findings and Recommendations**

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- 1. The LGU failed to establish a complete, timely and accurate financial reporting system, hence, casting doubts on the reliability of accounts in the Financial Statements contrary to Section 474 of Republic Act (R.A.) No. 7160.**

We recommended that Management correct thoroughly the irregularities in the balances of the accounts noted in order for the amounts in the financial statements, general ledger and subsidiary ledger be parallel with each other and consider a shift from manual accounting system to computerized accounting system which offers various advantages as compared to manual.

- 2. Reconciling items totaling P2,719,068.34 identified in the Bank Reconciliation Statements were not adjusted in the agency’s book of accounts, contrary to Item 3.3 of COA Circular No. 96-011 dated, October 2, 1996, thus affecting the reliability of Cash in Bank account – LCCA totaling to P44,926,171.57. Further, Cash in Bank –LCCA (1-01-02-010) and Cash in Treasury (1-01-01-010) accounts presented in the Financial Statement have unreconciled balance with the general ledgers, thus, the accuracy and veracity of the account is doubtful.**

We recommended that Management instruct the OIC-Municipal Accountant to reflect in the agency books the amount of P2,719,068.34 as adjustments in the affected accounts. After adjustments, the books and the financial statements should conform to the adjusted cash balance per bank reconciliation as of December 31, 2017 and account for the differences and effect adjustment/s, if necessary and general ledger must be filled out correctly and updated regularly.

- 3. The granting of cash advances to officers and employees was not adequately controlled resulting in the accumulation of outstanding balances amounting to P31,684,583.27, contrary to the provisions of Section 89 of Presidential Decree No. 1445.**

We recommended that management require the Municipal Accountant to: (a) issue demand letters to: (i) notify the concerned officials and employees of their responsibility to settle their unliquidated cash advances. If settlement was not received, withhold from their salaries considering that they have been notified and given more adequate time to liquidate; (ii) employees who already resigned and transferred to immediately cause the liquidation or settlement of the unliquidated balances; (b) request the write-off of the unliquidated cash advance balances of the dead employees; (c) reclassify “Other Receivable” account to Advances to Officers and Employees

account in order to present fairly the total balance of unsettled cash advances; (d) ensure the completeness of prescribed supporting documents for the granting of cash advances in processing claims for payment thereof; (e) not grant additional cash advance to concerned officials and employees unless the previous cash advance granted them have been liquidated; (f) instruct the OIC-Municipal Accountant not to process cash advances of elected officials other than for official travel; (g) strictly monitor periodically the submission of liquidation reports to ensure timely accounting thereof to avoid undue accumulation of outstanding cash advances; and (h) Strictly comply with the provisions of the abovementioned Circulars.

**4. Unreconciled discrepancy of PPE accounts amounting to P3,800,145.55 between accounting and property records.**

We recommended that Management (a) prioritize the reconciliation of balances between the accounting records and RPCPPE. Prepare adjusting entries, if any, to reflect the correct balance of the affected accounts; (b) should consider to dispose the unserviceable PPE, after reconciliation is made, and derecognize such in the Agency's book of accounts; and (d) maintain a detailed Equipment Ledger Card for each class of Property, Plant and Equipment that supports the balances presented in the FS. The schedule should enable the user to trace for the acquisition date and cost of an individual PPE to facilitate depreciation computation.

**5. Disbursements totaling to P4,595,913.48 charged to 20% Economic Development Fund for the Construction/ Rehabilitation/ Improvement of Local Roads (23 Barangays) Project is not in accordance with the guidelines set under DILG-DBM Joint Memorandum Circular No. 2017-1 dated February 22, 2017. Further, the veracity of the completion and existence of the said project cannot be verified due to the absence of the required supporting documents.**

We recommended that Management (a) explain why the POW includes the cost of gasoline only as well as the non-inclusion of materials and labor cost; (b) submit the lacking documents for audit purposes; (c) strict adherence with the DILG and DBM joint Circular No. 2017-1 in the preparation of Annual Investment Plan to be funded out of the 20% EDF; and (d) ensure that the utilization of 20% Development Fund must be for capital expenditure and/or in the nature of investments.

**E. Summary of Total Audit Suspensions, Disallowances and Charges**

	<b>Notice of Suspension</b>	<b>Notice of Disallowance</b>	<b>Notice of Charges</b>
Beginning Balances Jan 1, 2017	P 8,185.00	P3,153,176.70	-
Issuances	2,367,034.61	298,000.00	-
Total	2,375,219.61	3,451,176.70	-
Settlements	-	140,000.00	-
<b>Ending Balance, Dec. 31, 2017</b>	<b>P2,375,219.61</b>	<b>P3,311,176.70</b>	<b>-</b>

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

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There were twenty (28) audit recommendations contained in the Calendar Year 2016 Annual Audit Report, four (4) were implemented, nine (9) were partially implemented, leaving fifteen (15) recommendations not implemented. Some partially implemented audit recommendations affecting real accounts in the financial statements are restated in Part II of this report.