

## EXECUTIVE SUMMARY

### A. Introduction

1. Talacogon is a second class municipality in the Province of Agusan del Sur. It was created in 1872 by virtue of a Royal Decrees as Pueblo Mayor, when Agusan was not yet divided and was still part of Surigao under the governorship of Manuel Boscosa. Due to the destruction wreaked by World War II, no available record of its official recognition is available. It is considered as one of the oldest towns in the defunct Agusan Province.
2. The audit was conducted in accordance with applicable legal and regulatory requirements, and the International Standards of Supreme Audit Institutions (ISSAI). These standards require that we plan and perform the audit to obtain a reasonable basis for our conclusions.
3. The audit covered the accounts and operations of the Municipal Government for the year 2020 and was aimed at ascertaining the propriety of financial transactions, management's compliance to prescribed rules and regulations and the fairness of the presentation of financial statements. Audit on transactions related to global pandemic COVID – 19 was also given prioritization.

### B. Financial Highlights

#### 4. a) Comparative Financial Position and Financial Performance

Particulars	2020	2019	Increase/(Decrease)
Assets	528,802,809.89	486,593,826.88	42,208,983.01
Liabilities	201,652,775.92	172,873,334.85	28,779,441.07
Government Equity	327,150,033.97	313,720,492.03	13,429,541.94
Revenue	213,993,987.34	191,540,631.55	22,453,355.79
Expenses	207,751,162.25	193,130,607.83	14,620,554.42
Subsidy From	18,023,464.70	9,616,512.65	8,406,952.05
Net Income	24,266,289.79	8,026,536.37	16,239,753.42

#### b) Comparative Sources and Application of Funds

Particulars	2020	2019	Increase/(Decrease)
Appropriations	231,521,485.95	196,323,958.07	35,197,527.88
Allotments	231,521,485.95	196,323,958.07	35,197,527.88
Obligations	221,593,756.95	189,647,500.01	31,946,256.94

### **C. Audit Opinion**

5. The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of Talacogon for CY 2020 because of the following reasons:

- i. The reported balances of the PPE accounts with a book value of ₱379.00 million did not reconcile with the amounts in the Report of Physical Count of Property Plant and Equipment (RPCPPE) showing a total net variance of ₱32.855 million due to incomplete conduct of annual inventory taking, non-submission of complete inventory reports of all PPEs by the Inventory Committee and non-conduct of periodic reconciliation between the recorded accountability and the existing assets, thus accuracy, reliability and existence of PPE accounts could not be ascertained.
- ii. Inventories and the related expense accounts amounting ₱1.53 million and ₱35.88 million, respectively could not be ascertained due to non-submission of the monthly Report of Supplies and Materials Issued (RSMI) to the Municipal Accounting Office (MAO), non-maintenance of stock cards by the GSO and failure to conduct periodic reconciliation of the inventory records and per books, thus casting doubt on its accuracy, reliability, and existence, thereby affecting the fairness of the presentation of the accounts in the financial statements.

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

6. For the above-mentioned audit observation which has caused the issuance of a qualified opinion, we recommended that the Management:

- i. Direct the Inventory Committee to conduct the physical count earlier to give enough time to prepare the RPCPPE, so any discrepancy found in the accounting and property records may be reconciled as soon as possible;

Require the Accountant and the GSO to exert efforts to compare their respective records and verify/trace the unreconciled balances and prepare the necessary adjusting entries to correct any unrecorded/erroneous recording of PPEs to come up with the correct balances of the accounts; and

Augment personnel to GSO in order to enable them in executing their mandated duties and functions.

- ii. We reiterate our recommendation that Management:
- a. Direct the GSO to:
    - Practice the use of Request and Issue Slip (RIS) in every issuance of inventory item to the end-users and submit the monthly Report of Supplies and Materials Issued (RSMI) to MAO;
    - Maintain stock cards for inventories and to conduct periodic reconciliation of their records with the ledger cards of the MAO;
  - b. Require the Municipal Accountant to use the perpetual inventory system in the recording of inventories; and
  - c. Augment personnel to GSO in order to enable them in executing their mandated duties and functions.

7. The other significant audit observations and recommendations are as follows:

- iii. Delayed in remittance by one Collecting Officer to the Municipal Liquidating Officer was incurred ranging from 10 days to 36 days due to lack of monitoring and supervision of remittances, contrary to Section 63 of the Government Accounting Manual (GAM) for LGU, thereby exposes the collection to possible loss or misappropriation.

We recommended that Management:

- a. Require concerned Collecting Officer to remit his/her collections intact and on time to the Municipal Liquidating Officer; and
  - b. Direct the Municipal Treasurer to properly supervise the collectors to observe timely remittance of collections to minimize the risk of possible misappropriation.
- iv. Stale Checks amounting to ₱1,332,330.17 as of December 31, 2020 were not adjusted in the books, thus understating both the Cash in Bank and Payable Accounts.

We recommended that Management:

- a. Direct the Municipal Treasurer to communicate and send written notice to the payee on the existence of checks at least one month before a check becomes stale; and
- b. Require the Municipal Accountant to adjust on the above-mentioned stale checks.

- v. Various unserviceable and fully depreciated properties amounting to ₱3.29 million remained undisposed as of year-end, thereby exposing the assets to further deterioration and decreasing realizable value which is not consistent with Section 79 of Presidential Decree No. 1445, thus depriving the municipality of additional revenue that may be derived from the proceeds of sale and savings on cost of maintaining such property.

We recommended that Management direct the GSO to:

- a. Undertake immediate disposal of the subject properties to prevent further deterioration and decline of value, in order for the Municipality to generate additional income from sale thereof; and
  - b. Conduct periodic disposal of the assets once it become unserviceable and beyond economical repairs to avoid the accumulation of unserviceable PPEs in the storage facility.
- vi. Other Land Improvements, School Buildings, Power Supply System, and Computer Software account was understated by ₱150,000.00, ₱200,000.00, ₱180,000.00 and ₱3,495,000.00, respectively, while Buildings, Other Structures and Information and Communication Technology accounts were overstated by ₱285,000.00, ₱245,000.00 and ₱3,495,000.00, respectively, due to non-proper classification of items per Property, Plant and Equipment Ledger Cards (PPELC) as provided for in the Revised Chart of Accounts prescribed under COA Circular 2020-004, thus affect the fair presentation of the accounts in the financial statements.

We recommended that Management direct the Accountant to prepare adjusting journal entries to classify the above-mentioned equipment items to its proper accounts in accordance with the description of accounts in the Revised Chart of Accounts for LGUs.

- vii. Accuracy and reliability of six asset accounts and four liability accounts were doubtful due to the presence of unidentified specific transactions lumped as “for reconciliation and unreconciled” into each of these accounts with an aggregate amount of ₱7.16 million and ₱303,442.83, respectively, contrary with the provisions of PD 1445.

We reiterate our previous year’s recommendation that the Municipal Accountant continue to exert efforts to retrieve the necessary records and properly identify the specific transactions in the lumped amount covered by entries with “for reconciliation and unreconciled” notations and make the necessary adjustments to correct the affected account balances.

- viii. Procurement of materials for the construction of various projects totaling ₱2,245,855.30 was recorded directly under the Construction in Progress (CIP) account upon receipt instead of recording the same as Construction Materials Inventory, thus affecting the proper classification of asset accounts in the financial statements.

We recommended that Management to:

- a. implement the proper controls on the receipt and issuance of the construction materials and submit to MAO the monthly Report of Supplies and Materials Issued (RSMI) for the construction of projects by Administration; and
  - b. direct the Municipal Accountant to comply with the perpetual inventory method of accounting for supplies and materials.
- ix. Non-reconciliation of the Due from Other Funds and Due to Other Funds resulted to a difference amounting to ₱227,552.84, thus casting doubt as to the reliability and accuracy of the balances showed in the Financial Statements.

We recommended that the Municipal Accountant conduct reconciliation of the Due from Other Funds and Due to Other Funds accounts to identify the cause/s of the discrepancy in the balances of the two accounts and make necessary adjustments, if any.

- x. Enforcement of obligation on both the lessee and the lessor were doubtful due to non-execution of perfected contract of lease between the parties contrary to Item 2 of COA Circular 88-282A and other provisions of its Municipal Ordinance No. 304-2020 otherwise known as “Market Code of Talacogon”.

We recommended that Management immediately execute Contract of Lease between the tenants/occupants and the Local Government of Talacogon to ensure that the terms and conditions agreed upon by both parties will be complied and their interest will be safeguarded.

- xi. Receipt and distribution of donations in kind amounting to ₱3.91 million from Provincial Government of Agusan del Sur (PGAS) for Disaster Risk Reduction Management (DRRM) were deficient in the required documentation as prescribed under COA Circular 2020-009, thus transparency and proper accountability were not attained.

We recommended that Management:

- a. Adhere to COA Circular No. 2020-009 on the reporting guidelines on the future receipt and distribution of donations in kind from local and foreign sources; and

- b. For the receiving offices of the donations to properly coordinate with the GSO in order to keep track and report the receipt of all the donations.
  
- xii. Liquidation of the cash advance made for the grants of Social Amelioration Program amounting to ₱12,650,000.00 were deficient as (1) some beneficiaries did not completely fill-up the information needed; (2) some lack signatures in the payroll as proof of receipt in the total amount of ₱80,000.00; and (3) some were not included in the payroll but were given the aid amounting to ₱15,000.00, thus casts doubts whether the cash subsidies were received by the illegible beneficiaries and that funds were disbursed for its intended purpose.

We recommended that Management direct the Municipal Accountant to carefully review the liquidation reports submitted together with its supporting documents before recording the same in the books of accounts.

- xiii. Distribution of food commodities, medical supplies and drugs and medicines with an aggregate amount of ₱13.5 million were not supported with complete documentation, as required in Section 4.6 of Presidential Decree (PD) No. 1445, thus validity of the claim could not be established.

We recommended that Management direct the Municipal Accountant and the GSO to properly coordinate in determining the actual goods/supplies distributed/issued for the year and the accountant to take up in the books the adjusting journal entries if there were still unused/undistributed supplies as of December 31, 2020

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

- 8. Audit suspension amounting to ₱615,300.00 remained unsettled as of December 31, 2020. Also audit of disallowances amounting to ₱290,391.08, was partially settled amounting to ₱55,000.72 which leaves an outstanding balance of ₱235,390.36 in pursuant to Sections 5.4 and 7.1.1 of COA Circular No. 2009-006 dated September 15, 2009.

#### **F. Statement on the quantity/number of recommendations implemented, partially implemented and not implemented for the current year.**

- 9. Out of the 12 recommendations contained in CY 2019 Annual Audit Report, five (5) were fully implemented, six (6) were partially implemented, and one (1) was not implemented.