

# **EXECUTIVE SUMMARY**

## **INTRODUCTION**

The Municipality of Lugait is formerly a part of Manticao but on March 16, 1961, Executive Order No. 425 was signed into law by then President Carlos P. Garcia giving birth to the municipality.

The municipality has a total area of 36,425.6721 hectares which is divided into eight (8) barangays, namely: Aya-aya, Betahon, Biga, Calangahan, Lower Talacogon, Kaluknayan, Poblacion and Upper Talacogon. It has 20,100 population and 4,102 households based from the BNS survey. It bounded on the west northwest by Iligan Bay, northwest by the Municipality of Manticao and west southwest south by Iligan City.

In addition to the provisions provided in Section 17 of R.A. 7160, Lugait also endeavors to uplift the social economic well-being of the population through provision of effective and quality services and facilities.

## **FINANCIAL HIGHLIGHTS**

The total assets, liabilities and residual equity as of December 31, 2016 were P344,966,656, P82,151,414 and P252,815,242 respectively. There was an increase in the amount of assets equivalent to P14,383,490, an decrease in liabilities of P21,276,340 and a corresponding increase in equity of P35,659,830.

## **OPERATIONAL HIGHLIGHTS**

The Municipality derived its income from Share of Internal Revenue Allotment, Real Property Tax, Business Licenses and Permits, Tobacco Excise Tax and other miscellaneous income.

For Calendar Year 2016, the municipality generated a total income of P202,695,132 and total expenditures of P 138,489,251.

## **SCOPE OF AUDIT**

A financial and compliance audit was conducted on the accounts and transactions of the Municipality of Lugait, Misamis Oriental for the period January 1, 2016 to December 31, 2016 specifically on the following thrusts: 1.) Fund Transfers from a) National Government Agencies (NGAs) to LGU, b.) to other LGUs; c.) to Non-Government Organizations/People's Organization; 2.) Local Disaster Risk Reduction and Management; 3.) Environmental Compliance; 4.) Special Education Fund; 5.) 20% Development Fund; and 6.) Procurement. The audit was aimed to verify the level of assurance that may be placed on management's assertions on the financial statements;

recommend agency improvement opportunities; and determine the extent of implementation of prior years' audit recommendations.

The audit was conducted with the use of applicable rules, regulations and policies as the criteria and standards; the examination, on a test-basis, of the evidences supporting the amounts and disclosures in the financial statements; the assessments of the accounting principles used and the review of the significant estimates made by management; and the evaluation of the over-all financial statement presentation.

## **INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS**

We rendered a qualified opinion on the fairness of presentation of the financial statements as of December 31, 2016 since the contract cost of three projects were found higher than COA evaluated cost such as the Concreting of 500 L.M. Farm to Market Road at Barangay Betahon, Lugait amounting to P7,496,676.68 higher by 19.33% or equivalent to P1,214,449.18, Concreting of 140 l.m. Tongaon Road of Brgy. Calangahan, Lugait amounting to P1,997,096.96 higher by 16.62% or equivalent to P248,716.92 and Concreting of 125.00 l.m. Dumpsite Road, Brgy. Upper Talacogon, Lugait amounting to P1,696,439.01 found to be 7.25% or P114,723.01 above the COA Cost Evaluation.

## **SIGNIFICANT AUDIT OBSERVATIONS & RECOMMENDATIONS**

The following are the significant findings and recommendations in the audit of the Municipality of Lugait, Misamis Oriental for the Calendar Year 2016:

1. The contract cost of three projects were found higher than COA evaluated cost such as the Concreting of 500 L.M. Farm to Market Road at Barangay Betahon, Lugait amounting to P7,496,676.68 higher by 19.33% or equivalent to P1,214,449.18, Concreting of 140 l.m. Tongaon Road of Brgy. Calangahan, Lugait amounting to P1,997,096.96 higher by 16.62% or equivalent to P248,716.92 and Concreting of 125.00 l.m. Dumpsite Road, Brgy. Upper Talacogon, Lugait amounting to P1,696,439.01 found to be 7.25% or P114,723.01 above the COA Cost Evaluation, thus considered unnecessary or excessive expenditure of government funds which is prejudicial to the interest of the government contrary to Section 5.1 of COA Circular 2012-003.

We recommended Management to ensure that the preparation of the Approved Budget of the Contract (ABC) is compliant with applicable laws, rules and regulations to avoid any excess on the Contract Cost over COA Cost Estimates.

Also, we required Management to submit in our office their explanation/justification on the matter.

2. The Concreting of 500 l.m. Farm to Market Road at Barangay Betahon, Municipality of Lugait was found to have longitudinal and transversal cracks valued at P61,693.45, hence, subject for removal and replacement under Section 62.2 of the Revised IRR of RA 9184.

We recommended Management to:

- Direct the Municipal Engineer to request the contractor to remove and replace the defects as soon as possible and impose applicable sanctions and penalties if warranted; and
  - Intensify the monitoring of all on-going projects to minimize defects and avoid deficiencies.
3. The Municipality failed to capitalize borrowing costs paid out of the 20% Development Fund amounting to P7,060,262.43 contrary to Paragraph 18 of the Philippine Public Sector Accounting Standards (PPSAS) No. 5 regarding Borrowing Cost. These were recorded as interest expense thus understating the cost of related assets.

We recommended the Municipal Accountant to:

- Observe the proper accounting of borrowing costs in accordance with the Philippine Public Sector Accounting Standards (PPSAS) No. 5; and
- Prepare the necessary adjusting entries to correct the above noted deficiency.

Deficiencies observed in the course of the audit were earlier communicated through Audit Observation Memoranda (AOM) and discussed in the exit conference with concerned LGU-Lugait officials and employees on February 17, 2017. Their comments were incorporated in this report where appropriate.

Other deficiencies found in audit are discussed in Part II of this report.

### **SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES, AND CHARGES**

The municipality has total outstanding balances of notices of suspension (NS), notices of disallowances (NDs) of P 205,720.39 and P 706,575.96, respectively, viz:

<b>Particulars</b>	<b>NS</b>	<b>ND</b>	<b>NC</b>	<b>Total</b>
Balance, Jan. 1, 2016	181,720.39	24,000.00	0.00	205,720.39
Add: Issuances during	101,275.00	605,300.96	0.00	706,575.96

2016				
Less: Settlement	0.00	0.00	0.00	0.00
Balance, Dec. 31, 2016	282,995.39	629,300.96	0.00	912,296.35

**STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

Monitoring and evaluation of the actions taken by the management relative to the implementation of eleven (11) prior year's recommendations embodied in the CY 2015 Annual Report, disclosed that the six (6) were fully implemented and five (5) were partially implemented.