

EXECUTIVE SUMMARY

A. INTRODUCTION

The Municipality of Kabugao is the oldest among the seven municipalities of the Province of Apayao. It was formally created in 1914 when Lieutenant-Governor Blas Villamor of the American government appointed Manuel Rugrug as the first president of Kabugao. Pursuant to Act No. 1876, it became the sub-provincial capital of the sub-province of Apayao in 1916 and was created into a regular municipality by virtue of Executive Order No. 42 dated June 25, 1963 by President Diosdado Macapagal. It is composed of 21 regular and one administrative barangays and classified as a 1st class Municipality. It is presently under the leadership of Honorable **BENSMAR B. LIGWANG** who is on his first term as Municipal Mayor.

The Municipality of Kabugao envisions to be a prime eco-tourism destination in the Cordillera Region with empowered, hospitable and God-fearing people inspired by competent, dynamic and kind-hearted leaders living in a competitive Agro-based economy in a safe and sustainable environment.

Audit Methodology and Scope of Audit

A financial and compliance audit were 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

Kabugao is greatly dependent on its Internal Revenue Allotment. 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 for CY 2019 compared to that of the preceding year is detailed as follows:

Particulars	2019	2018	Increased (Decreased)
A. Financial Condition			
Assets	₱374,499,451.99	₱343,909,269.14	₱30,590,182.85
Liabilities	78,993,690.49	93,481,697.94	(14,488,007.45)
Government Equity	295,505,761.50	250,427,571.20	45,078,190.30

Particulars	2019	2018	Increased (Decreased)
B. Result of Operation			
Income	₱216,437,561.13	₱194,674,544.29	₱21,763,016.84
Expenses	191,992,212.97	116,757,108.27	75,235,104.70
Excess of Income	21,231,818.42	77,917,436.02	(56,685,617.60)

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

Particulars	2019	2018	Increased (Decreased)
A. Sources of Funds (Appropriation)			
Personnel Services	₱79,399,417.11	₱71,676,031.64	₱7,723,385.47
MOOE	72,176,064.71	74,033,853.72	(1,857,789.01)
Financial Expenses		-0-	-0-
Capital Outlay	60,791,791.13	48,863,233.40	11,928,557.73
Total	₱212,367,272.95	₱194,573,118.76	₱17,794,154.19
B. Application of Fund (Obligation)			
Personnel Services	₱78,488,784.54	₱71,676,031.64	₱6,812,752.90
MOOE	71,438,868.11	72,792,944.49	(1,354,076.38)
Financial Expenses		-0-	-0-
Capital Outlay	26,734,591.02	24,519,531.89	2,215,059.13
Total	₱176,662,243.67	₱168,988,508.02	₱7,673,735.65

A. AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

The auditor rendered a qualified opinion on the fairness of presentation of the financial statements due to the charging/debiting to Accounts Payable of various invalid claims of suppliers totaling ₱20,968,022.50 in violation of Section 46 PD 1177 which resulted in the understatement of the same account; hence, affecting the fair presentation of the financial statements.

Likewise, in Observation No. 2 of this report, Accounts Payable totaling ₱8,815,590.97 without valid claims was recognized contrary to Section 46 of PD 1177, resulting in the doubtful reliability of the balance as of December 31, 2019.

B. SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

A. Financial and Compliance Audit

1. Invalid claims of suppliers totaling ₱20,968,022.50 were charged/debited to Accounts Payable in violation of Section 46 PD 1177 which resulted in the understatement of the same account; hence, affecting the fair presentation of the financial statements.

We recommended that:

- a. the Accounting Office stop obligating and processing payments for invalid claims, otherwise shall be disallowed in audit; and
 - b. the Municipal Budget and Accounting Office reconcile the discrepancies noted and maintain records/ledgers for all obligations incurred and settled by the municipality.
2. Recognition of Accounts Payable totaling ₱8,815,590.97 without valid claims contrary to Section 46 of PD 1177 resulted in the doubtful reliability of the balance as of December 31, 2019.

We recommended that the accounting office record only those obligations that are valid and authorized.

We further recommended that the accounting office derecognize from the books all the obligations which are not valid.

3. Expenditures for various supplies and equipment totaling ₱49,423,390.30 were incurred in the absence of or beyond the authorized appropriation, hence, rendering the disbursements illegal.

The Audit Team recommended the following courses of action:

- a. The Municipal Budget Officer maintain records and registry of appropriation, allotments and obligations to prevent the incurrence of expenditures in excess of appropriations;
- b. The Accounting Office stop processing disbursements not covered by appropriation; and
- c. The Municipal Budget Officer and the Municipal Accountant properly review the transaction before rendering certification on the availability of appropriation and allotment, respectively.

4. Collections totaling ₱1,373,457.64 were not remitted intact to the Liquidating Officer contrary to Section 69.1 of Presidential Decree 1445, thus, exposing the government funds to possible misuse.

We recommended that:

- a. all revenue collectors remit their collections regularly to the Liquidating Officer;
 - b. the Municipal Treasurer and the Liquidating Officer closely monitor the timely recording and remittance of collections of the collectors;
 - c. MTO personnel refrain from using their collection in the encashment of personal checks; and
 - d. all AOs maintain separate cashbooks for General and Trust Fund accounts.
5. Cash shortage in the amount of ₱183,059.23 was incurred by two revenue collectors, due to non-remittance of collections intact.

We recommended that Mr. Basan fully reconstitute his shortage through remittance to the Liquidating Officer, otherwise, appropriate legal action will be instituted.

6. Shortage in the cash advances for payroll account totaling ₱7,162,992.94 exposes the funds to misappropriation or misuse.

We recommended that the Local Chief Executive require the Disbursing Officer II to immediately settle his shortage in full, otherwise, impose sanctions or effect the withholding of his salaries; and

We further recommended that the Municipal Accountant refrain from granting cash advances to the CDO if the previous cash advances were not yet liquidated.

7. Government funds were not adequately controlled/safeguarded due to the indiscriminate granting of cash advances totaling ₱5,608,580.00 to ineligible officials and employees for purposes other than those allowed in COA Circular 97-002.

We recommended the following:

- a. Stop granting cash advance to elected officials for purposes other than their official travelling expenses, otherwise a Notice of Disallowance will be issued; and
- b. Grant cash advances only to designated disbursing officers who are properly bonded and only for purposes that are allowed by law.

8. Cash advances totaling ₱5,810,464.00 were granted to officials and employees with outstanding cash advances contrary to Section 89 of PD 1445.

We recommended that Management stop granting cash advances to officers and employees with outstanding cash advances.

9. Cash advances with lacking supporting documents totaling ₱5,177,860.00 were granted to officials and employees contrary to Section 4 of PD 1445, hence, rendered the validity and legality of the disbursements doubtful.

We recommended that Management ensure that all disbursements are supported with complete documents to establish validity and legality of claims.

10. Splitting of Requisitions and Purchase Orders in the procurement of Information Technology (IT) equipment, janitorial and office supplies totaling ₱53,981,786.00 and numerous violation of RA 9184 and its IRR deprived the municipality of the most advantageous price and renders the transaction irregular/illegal.

We recommended that the BAC Secretariat consolidate Purchase Requests of similar items approved at or about the same period to avoid splitting of contracts, otherwise, a Notice of Disallowance will be issued; and

We further recommended that the BAC adhere strictly with pertinent provisions of RA No. 9184 in the conduct of procurement activities.

11. Management failed to fully implement the CY 2019 Municipal Disaster Risk Reduction Management Fund (MDRRMF) as appropriated and included in the approved Municipal Risk Reduction Management Investment Plan (MDRRMIP) contrary to RA 10121; thus strategic measures to reduce the risk of disaster and mitigate the impact brought by calamities, man-made or caused by natural phenomenon, if any were not assured.

We recommended that the Local Chief Executive ensure that all Programs, Activities and Projects (PAPs) identified in the Municipal Disaster Risk Reduction Management Investment Plan (MDRRMIP) are fully implemented in the year they are appropriated in order to reduce the risk of disaster and mitigate the impact of calamities, man-made or caused by natural phenomenon.

B. Value for Money Audit

12. Supplies totaling ₱43,081,365.34 were procured six times in excess of the estimated supply requirement for CY 2019 contrary to Section 26 of COA Circular No. 2012-003 which could have been used to fund other priority projects of the municipality.

We recommended that:

- a. the Municipal Treasurer as the General Services Officer see to it that procurement of supplies and materials shall not exceed the two-month requirement of each office in strict compliance with Section 26 of the general provisions of the 2019 GAA and similar provisions of succeeding GAAs;
 - b. Management account for all the purchases and the corresponding utilization of supplies, otherwise a Notice of Disallowance shall be issued; and
 - c. Henceforth, Management properly plan its procurement and conduct periodic review of actual utilization of supplies and, thus avoid/stop resorting to excessive and unconscionable expenses.
13. Seventeen (17) out of the twenty (20) infrastructure projects funded under the 20% Local Development Fund were either not yet completed or still unimplemented as of December 31, 2019, hence, the intended purpose and benefits which could be derived therefrom were not realized.

We recommended that management through the Municipal Engineer and Municipal Planning and Development Coordinator:

- a. prepare and strictly observe the timetable for the completion of specific projects and monitor the progress of project implementation; and
- b. develop other applicable strategies for the effective and timely implementation and monitoring of its programs and activities

C. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 56 audit recommendations embodied in the 2018 Annual Audit Report, 19 were fully implemented, 11 were partially implemented and 26 were not implemented.