

## EXECUTIVE SUMMARY

### A. Introduction

#### Agency Profile

The Municipality of Baggao was once a barrio of Amulung. It became a Municipality on November 27, 1896 by a Royal Decree.

For more than 95 years, since it was separated from its mother town Amulung, the Municipal Government of Baggao has been seated at the Centro or Poblacion. The Poblacion or Centro founded almost a century ago is no longer the center today. Basing on the context of “ripple effect” approach of development, the present site of the Municipal Government of Baggao has already become misplaced and unstrategically located as its pivotal role of or equal government services and opportunities has already waned. The present town site in fact is causing upsurge of factionalism due to the desire of the people to split the municipality into two.

Pursuant to Republic Act 7160, otherwise known as the Local Government Code of 1991, the Municipality, like other local government units, enjoys total independence in managing, deciding and planning its own administrative, fiscal and development affairs in conformity with the national governments’ thrust for sustainable social and economic growth.

#### Scope of Audit

The audit covered the accounts and operations of the Municipality of Baggao, Cagayan for CY 2019 and was aimed at determining whether management presented fairly the financial statements of the Municipality in adherence to the generally accepted accounting principles and whether prevailing laws, rules and regulations have been complied with. Financial and compliance audits were conducted to achieve these audit objectives.

### B. Financial Highlights

The highlights of the financial condition, results of operation, appropriations, allotments and obligations of the Municipality of Baggao, Cagayan for the year ended December 31, 2019, with comparative figures for CY 2018, are as follows:

Particulars	2019	2018	Increase (Decrease)
<b>Financial Condition</b>			
Total Assets	P690,478,994.64	P725,676,183.36	P(35,197,188.72)
Total Liabilities	115,631,237.76	155,140,467.34	(39,509,229.58)
Total Government Equity	574,847,756.88	570,535,716.02	4,312,040.86

<b>Results of Operations</b>			
Total Income (Includes Total Operating Income and Subsidy from Other Funds)	352,560,617.10	319,017,865.91	33,542,751.19
Total Expenses (Includes Total Operating Expenses, Subsidy to NGAs, Subsidy to Other Funds and Donations)	279,516,217.13	262,766,243.31	16,749,973.82
<b>b) Appropriations, Allotments and Obligations:</b>			
Appropriations-Current	P387,172,696.99	P347,374,045.73	P39,798,651.26
Appropriations-Continuing	164,018,100.91	126,605,264.86	37,412,836.05
Allotments – Current	387,172,696.99	347,374,045.73	39,798,651.26
Allotments –Continuing	164,018,100.91	126,605,264.86	37,412,836.05
Obligations – Current	284,943,314.35	246,106,681.26	38,836,633.09
Obligations –Continuing	60,848,184.14	33,246,048.81	27,602,135.33

	2019	2018	Increase (Decrease)
<b>Funds Received from Other Agencies</b>			
NGAs	P 3,138,899.72	P32,410,097.95	P (29,271,198.23)
LGUs	1,000,000.00	3,000,000.00	(2,000,000.00)
NGO/POs	-	-	-
Others	376,050.00	-	376,050.00
<b>Total</b>	<b>P4,514,949.72</b>	<b>P35,410,097.95</b>	<b>P (30,895,148.23)</b>
<b>Funds Transferred to Other Agencies</b>			
NGAs	P -	P 1,521,570.00	P (1,521,570.00)
LGUs	-	594,000.00	(594,000.00)
NGO/POs	-	137,500.00	(137,500.00)
Others	-	69,800.00	(69,800.00)
<b>Total</b>	<b>P -</b>	<b>P 2,322,870.00</b>	<b>P (2,322,870.00)</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 Baggao for the year-ended December 31, 2019 due to the following:

1. The reliability and existence of Property, Plant and Equipment and Inventory (PPE) accounts, with carrying amounts of P308,658,469.10 and P965,394.00, respectively, could not be ascertained due to the following: (a) some of the PPE accounts and of the inventory accounts were not physically counted; (b) Supplies Ledger Cards and Stock Cards were not maintained; and (c) PPE Ledger Cards and Property Cards were not also maintained for each category of PPE.
2. The adjustments made in the books, which decreased the Due to NGAs, Due to LGUs and Other Payables accounts by P17,710,202.89, P981,819.38 and P490,879.72, respectively, could not be relied upon since the documents that

would support the verification of the said accounts were not submitted, thereby may affect the fair presentation of the balances in the financial statements.

3. The current year's transfers of Unspent Current Year DRRM Funds to the Trust Funds amounting to P13,081,871.52 in the financial statements, included the transfer of the unexpended/unobligated balance from DRRM – Capital Outlay, which should remain under the General Fund books, consistent with Item 5.1.11 of COA Circular No. 2012-002 dated September 12, 2012. Thus, the Trust Liabilities-DRMMF account is overstated in the financial statements by P6,491,125.00.

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

The following are among the Audit Team's significant audit observations and recommendations:

1. The Cash-Local Treasury account has an outstanding balance at year-end amounting to P567,357.34 as a result of the accumulation of collections/receipts that were not deposited immediately to the authorized depository bank, which is not in consonance with Section 62(C) of the Local Treasury Operations Manual, hence may expose the cash to the risk of possible theft, misapplication and loss of government funds.

We recommended that the Municipal Treasurer ensure that the significant amount of collection/receipts be deposited immediately to the authorized depository bank in compliance with Section 62 (C) of the Local Treasury Operations Manual.

2. The Other Receivable account, with a total amount of P2,736,983.51, included long outstanding receivables, arising from the unrestituted cash shortage and loans for livelihood program, amounting to P917,733.51 and P1,819,250.00, respectively. Hence, additional income that could be derived from the collection of the said receivables to finance programs/projects of the Municipality was not realized during the year.

We recommended that the Management exert extra effort to recover the cash shortage and intensify their collection efforts in the uncollected receivable under the livelihood program. It is further recommended that the Municipal Accountant issue demand letters to the inactive recipients. Moreover, analyze the accounts that are dormant and long outstanding and may request for the write off of the dormant Receivable accounts, except for the receivable arising from cash shortage, as prescribed in COA Circular 2016-005, to present fairly the accounts in the financial statements.

3. The Local Disaster Risk Reduction Management Fund Investment Plan for CY 2019 did not include the programs to support disaster risk reduction and

management activities to be sourced from the Special Trust Fund as provided in COA Circular No. 2012-002 dated September 12, 2012. Correspondingly, propriety of charges from the Unexpended LDRRMF for CYs 2015 to 2018 transferred to Trust Fund could not be easily ascertained.

We recommended that the LDRRMO/LDRRMC, in the preparation and review of LDRRMFIP, consider the inclusion of projects and activities to be funded from the unexpended QRF and DRRMF-MOOE of the previous years, which were transferred to the Trust Fund. This will help support the disaster risk reduction and management activities of the Local Disaster Risk Reduction Management Council within the next five (5) years.

**E. Summary of total Suspensions, Disallowances and Charges**

Particulars	Beginning Balance	Issued During the Year	Settlement During the Year	Ending Balance	% of Settlement
<u>Suspensions</u>					
Prior Years	-	-	-	-	-
Current Year	-	-	-	-	-
Total	-	-	-	-	-
<u>Disallowances</u>					
Prior Years	-	-	-	-	-
Current Years	-	-	-	-	-
Total	-	-	-	-	-
<u>Charges</u>					
Prior Years	-	-	-	-	-
Current Years	-	-	-	-	-
Total	-	-	-	-	-

**F. Status of Implementation of Prior Years' Audit Recommendations**

Out of the 20 audit recommendations in the CY 2018 Annual Audit Report, nine (9) were implemented, 10 were partially implemented and one (1) was not implemented and are reiterated in Part II of this Report