

EXECUTIVE SUMMARY

A. Introduction

Buguey was founded and created on May 20, 1623 as a town by virtue of Royal Decree issued by the King of Spain. The municipality is situated at the northern part of the Province of Cagayan. It is bounded on the north by the Babuyan Channel, on the south by the municipality of Lal-lo, on the east by the municipality of Sta Teresita (former part of Buguey) and on the west by the municipality of Aparri.

The audit covered the accounts and operations of the Municipality of Buguey for the year 2019 and was aimed at determining whether management presented fairly the financial statements of the Municipality in adherence to the International Public Sector Accounting Standards (IPSASs), whether prevailing laws, rules and regulations have been complied with, and funds were utilized in the most efficient, effective and economical manner. Financial, compliance audit and performance audit were conducted to achieve these audit objectives.

B. Highlights of Financial Information

The table below shows that the Municipality's Assets, Liabilities and Government Equity as of December 31, 2019 were P228,318,411.82, P99,298,012.92 and P129,020,398.90 with an increase in assets, liabilities, government equity of 10.75%, 23.80%, and 2.43% respectively from last year's figures.

On the other hand, income earned and expenses incurred during the year amounted to P125,577,135.76 and P123,086,561.23 which increased by 12.18% and 16.23%, respectively, from last year's figures.

| | 2019 | 2018 | Increase (Decrease) | |
|---|----------------|-----------------|---------------------|----------|
| | | | Amount | % |
| Financial Condition | | | | |
| Assets | 228,318,411.82 | P206,160,759.80 | 22,157,652.02 | 10.75% |
| Liabilities | 99,298,012.92 | 80,206,028.81 | 19,091,984.11 | 23.80% |
| Government Equity | 129,020,398.90 | 125,954,730.99 | 3,065,667.91 | 2.43% |
| | | | | |
| Results of Operation | | | | |
| Total Income | 125,577,135.76 | 111,940,552.19 | 13,636,583.57 | 12% |
| Total Expenses | 123,086,561.23 | 105,897,261.93 | 17,189,299.30 | 16.23% |
| | | | | |
| Appropriations, Allotments and Obligations | | | | |
| Appropriations-Current | 125,944,461.07 | 171,066,183.65 | (45,121,722.58) | (26.38%) |
| Appropriations-Continuing | | 9,439,366.38 | | |
| Allotments-Current | 125,944,461.07 | 171,066,183.65 | (45,121,722.58) | (26.38%) |
| Allotments-Continuing | | 9,439,366.38 | | |
| Obligations-Current | 121,623,038.66 | 112,938,431.08 | 8,684,607.58 | 7.69% |
| Obligations-Continuing | | 3,668,711.68 | | |

C. Independent Auditor's Report on the Financial Statements

We rendered a Qualified Opinion on the fairness of the financial statements as at December 31, 2019 due to the following:

1. Reconciling items as reflected in the Bank Reconciliation Statements as of December 31, 2019 totaling to P10,429,970.68 remained unadjusted for a long period in the books of accounts of the LGU hence, rendering the accuracy and propriety of the Cash in Bank account balance amounting to P13,100,473.19 doubtful and unreliable in violation of Section 74 of Presidential Decree(PD) No. 1445 otherwise known as the Government Auditing Code of the Philippines. Likewise, sound accounting practice dictates that the non-adjustment of reconciling items in a bank reconciliation statement in the books of the LGU defeats the purpose of its preparation.
2. Regulations relevant to the grant, utilization and liquidation of cash advances provided for under Section 89 of Presidential Decree No. 1445 and COA Circular No. 97-002 dated February 10, 1997 were not strictly observed by the Municipality, thus, resulting in the improper grant and utilization and continuous accumulation of unliquidated cash advances totaling to P2,501,360.13 as of year-end. Likewise, the related expenses of the unliquidated cash advances were not yet accounted for hence, resulting in overstatement of asset and understatement of expenses in the year they were incurred.
3. The existence of negative/abnormal balances in the subsidiary ledgers of some asset and liability accounts amounting to (P198,560.96) and (P1,354,609.43), respectively affects the reliability of the ending balances of the related accounts, which is not consonance with Section 27 of the Philippine Public Sector Accounting Standards (PPSAS) 1 thus, affecting the fair presentation of the accounts in the financial statements.
4. The validity and reliability of the balances of Cash-in-Bank and Government Equity – Prior Period Errors accounts on the operations of the Crab Hotel amounting to (P8,468,160.46) and (P11,677,880.19), respectively, could not be verified due to incomplete subsidiary ledgers and other supporting documents, thereby, casting doubt on the balances presented in the financial statements.

D. Summary of Significant Audit Observations and Recommendations

1. Reconciling items as reflected in the Bank Reconciliation Statements as of December 31, 2019 totaling to P10,429,970.68 remained unadjusted for a long period in the books of accounts of the LGU hence, rendering the accuracy and propriety of the Cash in Bank account balance amounting to P13,100,473.19 doubtful and unreliable in violation of Section 74 of Presidential Decree(PD) No. 1445 otherwise known as the Government Auditing Code of the Philippines.

Likewise, sound accounting practice dictates that the non-adjustment of reconciling items in a bank reconciliation statement in the books of the LGU defeats the purpose of its preparation.

We recommended that Management install adequate internal controls over cash management that are consistent with laws, existing rules and regulations, especially in its collection and deposit procedures requiring intact remittance of collections daily, to ensure that government funds are adequately safeguarded from misuse, misappropriation, irregularities and theft.

We further recommended that regular evaluation of internal controls be undertaken in order to identify procedural problems resulting in inefficiencies, deficiencies and abuses and to measure the effectiveness of internal control on the operations of the Municipal Treasurer's Office.

2. Regulations relevant to the grant, utilization and liquidation of cash advances provided for under Section 89 of Presidential Decree No. 1445 and COA Circular No. 97-002 dated February 10, 1997 were not strictly observed by the Municipality, thus, resulting in the improper grant and utilization and continuous accumulation of unliquidated cash advances totaling to P2,501,360.13 as of year-end. Likewise, the related expenses of the unliquidated cash advances were not yet accounted for hence, resulting in overstatement of asset and understatement of expenses in the year they were incurred.

We recommended that the Local Chief Executive:

- a. Require, by sending demand letters, all concerned officials and employees to liquidate immediately their outstanding cash advances. Refrain from granting additional cash advances to those who still have unliquidated balances, and observe strictly the rules and regulations on the granting, utilization and liquidation of cash advances.
- b. Instruct the Municipal Accountant to closely monitor the outstanding cash advances and issue demand letters for the immediate liquidation or settlement of the same. Enforce sanctions under COA Circular No. 97-002, where necessary;
- c. Instruct the Municipal Accountant to ensure that all disbursement vouchers on the grant of cash advances for Salaries, Wages, Honoraria and Other similar payments should be supported by approved payroll and the amount to be granted should be based on the net amount of the payroll;
- d. Effect refund of cash advance through salary deductions as provided under Item 5.1.3 of COA Circular No. 97-002, where necessary, to avoid sanctions provided by law.

- e. Avoid the grant of cash advance to Officials and Employees who are not cashiers, disbursing officers, paymasters, and/or property/supply officers or designated disbursing officers except for their travelling expenditures.
3. The existence of negative/abnormal balances in the subsidiary ledgers of some asset and liability accounts amounting to (P198,560.96) and (P1,354,609.43), respectively affects the reliability of the ending balances of the related accounts, which is not consonance with Section 27 of the Philippine Public Sector Accounting Standards (PPSAS) 1 thus, affecting the fair presentation of the accounts in the financial statements.

We recommend that the Municipal Accountant carefully analyze the entries made on the accounts affected to correct the existence of negative/abnormal balances and prepare the necessary adjusting entries, as needed.

4. The validity and reliability of the balances of Cash-in-Bank and Government Equity – Prior Period Errors accounts on the operations of the Crab Hotel amounting to (P8,468,160.46) and (P11,677,880.19), respectively, could not be verified due to incomplete subsidiary ledgers and other supporting documents, thereby, casting doubt on the balances presented in the financial statements.

We recommend Management, thru the Municipal Accountant, to comply strictly with the provisions of Section 111 of PD 1445 and COA Circular No. 2010-001 by ensuring that all accounts presented in the financial statements are supported with necessary supporting schedules and submit the same to COA in order to furnish the necessary information relevant to audit.

Further, we recommend that the Municipal Accountant submit the required subsidiary schedule of General Ledger Accounts and Adjusting and Closing Journal Entry Vouchers including its supporting documents pertaining to the Cash-in-Bank and Government Equity – Prior Period Errors accounts of the Crab Hotel operations amounting to (P8,468,160.46) and (P11,677,880.19), respectively, thereby adhering to the standards of fair presentation of financial statements.

5. Monthly Bank Reconciliation Statements (BRS) for the cash in bank account of the Municipality prepared and submitted by the Municipal Accountant to the Office of the Auditor were not supported with the original copies of the Bank Statements, cancelled and paid checks, bank debit and credit memos as required under Paragraph 3.0, COA Circular No. 96-011, dated October 2, 1996 thus, preventing the latter to prove the periodic balance of the account as presented in the financial statements.

We recommended that the Municipal Accountant submit immediately all the supporting documents of the BRS for the year 2019 such as original copies of the bank statements, debit and credit memos, cancelled and paid checks and all supporting documents necessary to facilitate the timely verification of Monthly

Bank Reconciliation Statements submitted to the Office of the Auditor, and submit all succeeding monthly BRS with complete supporting documents pursuant to Paragraph 3.0 of COA Circular No. 96-011, dated October 2, 1996.

Summary of Total Suspensions, Disallowances and Charges

Settlement of Suspensions and Disallowances is shown on table below:

| Particulars | Beginning Balance | Issued During the Year | Settlement During the Year | Ending Balance | % of Settlement |
|----------------------|--------------------------|-------------------------------|-----------------------------------|-----------------------|------------------------|
| Suspensions | | | | | |
| Prior Years | | 29,083,522.96 | - | 29,083,522.96 | - |
| Current Year | - | - | - | - | - |
| Total | - | 29,083,522.96 | - | 29,083,522.96 | |
| | | | | | |
| Disallowances | | | | | |
| Prior Years | - | - | - | - | - |
| Current Year | - | - | - | - | - |
| Total | - | - | - | - | |
| | | | | | |
| Charges | | | | | |
| Prior Years | - | - | - | - | - |
| Current Year | - | - | - | - | - |
| Total | - | - | - | - | |

E. Status of Implementation of Prior Year’s Audit Recommendations

Out of eighteen (18) audit recommendations embodied in the 2018 Annual Audit Report, eight (8) were fully implemented, eight (8) were partially implemented and two (2) were not implemented as of December 31, 2019.