

## EXECUTIVE SUMMARY

### A. Introduction

The Municipality of Lupao is reclassified as 3<sup>rd</sup> class under the classification of municipalities of the Province of Nueva Ecija effective July 29, 2005, promulgated by the Department of Finance under Department Order No. 20-05, prescribing the New Income Brackets for the Reclassification of Provinces, Cities and Municipalities.

The Municipality of Lupao comprises 24 barangays and has a total land area of 17,378 hectares bounded on the north by Umingan, Pangasinan, on the south by San Jose City, on the east by the town of Carranglan and on the west by the town of Talugtug, both of Nueva Ecija.

### B. Financial Highlights

The Municipality's financial condition, results of operations and sources and application of funds for CY 2019 with comparative figures for CY 2018 are as follows:

	2019	2018	Increase (Decrease)
<b>Financial Position</b>			
Assets	₱181,024,784.67	₱168,971,903.66	₱39,537,009.89
Liabilities	44,497,341.86	48,487,073.08	(3,989,731.22)
Government Equity	136,527,442.81	120,484,830.58	16,042,612.23
<b>Financial Performance</b>			
Revenue	143,044,619.49	129,763,081.56	13,281,537.93
Expenses	122,761,191.08	94,059,586.52	28,701,604.56
Excess of income over Expenses	20,283,428.41	35,703,495.04	(15,420,066.63)
<b>Sources and Application of Funds</b>			
Appropriations	169,398,275.65	119,159,660.58	50,238,615.07
Allotments	169,398,275.65	119,159,660.58	50,238,615.07
Obligations	139,971,037.26	89,721,517.55	50,249,519.71
Balances	29,427,238.39	29,438,143.03	(10,904.64)

### C. Audit Scope

The audit covered the financial transactions and operations of the Municipality of Lupao for the year ended December 31, 2019. The objectives of the audit were to: (a) ascertain the degree of reliance on the management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

In compliance with the Unnumbered Memorandum dated July 3, 2019 by the Commission on Audit Assistant Commissioner for Local Government Sector (LGS) and in pursuance of COA Memorandum No. 2016-023 dated November 14, 2016, which identify the CY 2019 audit foci, we covered in audit the Cash and Cash Equivalents, Financial Liabilities, Funds Transfers (Due from/Due to NGAs, NGOs/POs, GOCCs, and LGUs), Funds Directly Released by DBM to LGUs from Appropriations for Local Government Support Fund (LGSF) (BUB and ADM), Local Disaster Risk Reduction Management Fund (LDRRMF), Compliance and Performance Audit of 20% Development Fund, Revenue-Generating Program, Solid Waste Management Fund, Programs and Projects related to Gender and Development, Compliance to Tax Laws, Remittance of Mandatory Contributions (GSIS, PhilHealth and Pag-ibig), and Statement of Audit Suspensions, Disallowances and Charges. Additional areas included are the account of Property, Plant and Equipment and payments of job order/contractual personnel. Results of audit with significant observations were discussed in Part II of this report.

#### ***D. Independent Auditor's Report***

We rendered an unmodified opinion on the fairness of the presentation of the financial statements of the Municipality.

#### ***E. Summary of Other Significant Audit Observations and Recommendations***

For CY 2019, commendably we found the Municipality of Lupao had achieved and even surpassed its revenue collection targets for the year and compliant with laws, rules and regulations on the following: (a) Gender and Development (GAD); and on the (b) withholding and remittance of (i) taxes to the Bureau of Internal Revenue; and (ii) contributions and loan amortizations to the Government Service Insurance System, Philippine Health Insurance Corporation and the Home Development Mutual Fund.

On the other hand, the observations which need management action are briefly summarized as follows:

1. Cash advances of ₱17,863,592.13 remained unliquidated as at December 31, 2019, ₱15,607,010.49 or 87.37% of which pertains to those that were aged more than ten years and granted to employees who were now no longer connected with the LGU, thus probability of collection is low while the balance of ₱2,256,581.64 or 12.63% and aged less than one year to over three years were for time bound activities that were presumed to have already been used as at year end. This is contrary to COA Circular No. 97-002, which resulted in the delayed recognition of assets and expenses that were paid out of said cash advances while exposing to risk of loss or misuse any unused balance thereof. ***(Observation No. 01)***

We recommended and the Local Chief Executive agreed to (a) undertake all legal actions available to management to enforce the liquidation of cash advances; (b) instruct the Municipal Accountant to request for write off all unliquidated cash advances that are

eligible for write off in accordance with COA rules and regulations on the writing off of accounts.

2. The inability of the municipality to conduct proper property recording and inventory management resulted in the continued unreliability of the Property, Plant and Equipment (PPE) accounts totaling ₱105,730,411.62 or 58.41% of the total assets of the municipality as at December 31, 2019. **(Observation No. 02)**

We recommended and the Local Chief Executive agreed to (a) require the Municipal Treasurer/Acting GSO and the Municipal Accountant to prioritize the updating and reconciliation of property records; and (b) re-create an Inventory Committee and assign an overall focal person that will conduct physical count of all property, plant, and equipment and render a report thereon to the Municipal Accountant, copy furnished the COA Audit Team.

3. Sixteen out of 21 programs or with budgeted cost of ₱ 9,446,501.50 or 86.86% of the ₱10,876,491.50 Disaster Risk Mitigation Fund (MF), was implemented and utilized ₱6,280,634.38 as at end of CY 2019, which enhanced the Municipality's readiness to address and manage the ill effects of disasters. **(Observation No. 03)**

We recommended that the Local Chief Executive continue to sustain all other programs and activities of the LDRRM for the benefit of the community it serves.

4. The Municipality was able to comply with allocating the appropriation of 20% of the Internal Revenue Allotment (IRA) or ₱38,143,956.00 for development projects (DF) during CY 2019. However, due to delayed passage of the 2019 budget, the municipality had actually disbursed only a total amount of ₱19,123,525.67 or 51.00% of its allocation such that six PPAs were not accomplished, thus deprived the beneficiaries with the benefits that might have been derived therefrom. **(Observation No. 05)**

We recommended and the Local Chief Executive and the Sanggunian Bayan agreed to work together for a timely enactment of budget/appropriations in the ensuing years to allow the timely implementation of development projects.

5. Inconsistent with the mandate of Republic Act No. 9003, otherwise known as The Solid Waste Management Act of 2000, the Municipality was not able to fully implement the planned SWM projects and activities for CY 2019 due to delayed enactment of the said year's annual budget. **(Observation No. 06)**

We recommended and the LCE and the SB agreed to work towards an optimized delivery of public service through the timely enactment of the municipality's annual budget to sustain the satisfactory implementation of RA 9003 or the Solid Waste Management (SWM) Act of 2000. Further, we advised that the procurement of the solid waste procurement facility conducted significantly address the solid waste management problem of the Municipality.

6. Payrolls amounting to ₱1,165,299.00 were paid to 188 Contractual/Job Order personnel for the period January 1, 2019 to February 28, 2019 despite the absence of pertinent contracts, contrary to Section 4(6) of P.D. No. 1445 and COA Circular No. 2012-001 dated June 14, 2012. (*Observation No. 08*)

We recommended and the Local Chief Executive agreed to require the (a) Municipal HRMO to ensure that pertinent contracts are issued to every job order/contract of service personnel before payments are made; (b) Municipal Accountant to (a) ensure that supporting documents are complete before payment; and (c) facilitate the submission the required supporting contracts in settlement of the notice of suspension.

***F. Summary of Suspensions, Disallowances and Charges at Year-End***

The Municipality's summary of total Suspensions, Disallowances and Charges as of December 31, 2019 is as follows:

	Beginning Balance (as of December 31, 2018)	This period (January 1 to December 31, 2019)	Settlement this period (January 1 to December 31, 2019)	Ending Balance (As of December 31, 2019)
		NS/ND/NC	NSSDC	
Notice of Suspension	₱ 10,512,533.66	₱1,238,922.33	₱ 0.00	₱11,751,455.99
Notice of Disallowance	3,727,861.47	0.00	0.00	3,727,861.47
Notice of Charge	0.00	0.00	0.00	0.00
<b>Total</b>	<b>₱14,240,395.13</b>	<b>₱1,238,922.33</b>	<b>₱ 0.00</b>	<b>₱15,479,317.46</b>

***G. Status of Implementation of Prior Year's Unimplemented Audit Recommendations***

Evaluation of the actions taken by the management with respect to the 21 audit recommendations contained in the previous Annual Audit Report revealed 15 or 71.43% was implemented, five or 23.81% were partially implemented and one or 4.76% was not implemented.