

EXECUTIVE SUMMARY

A. Introduction

Cabug was the former name of Enrile when it was one among the barrios of Tuguegarao. It was established as a separate town in September 1841 and was named in honor of Governor Pascual Enrile, who was the prime mover for the construction of roads in Northern Luzon. However, there was no enabling law or records available showing the creation of the municipality. This 3rd class municipality produces rice, corn, tobacco, peanuts and sugar cane.

Financial, compliance and value for money audit were conducted on the accounts and operations of the LGU – Enrile, Cagayan for calendar year 2018. The audit objectives were to ascertain the propriety of the disbursements, reliability of the financial reports, adequacy of accounting records, compliance with laws, rules and regulations, as well as adherence to prescribed policies and procedures. Likewise, the audit was conducted to determine whether plans, programs, activities and projects for the year were attained at an efficient, economic and effective manner.

B. Financial Highlights

The financial condition and results of operations of LGU – Enrile, Cagayan for CY 2018 with comparative figures for CY 2017 are as follows:

Accounts	2018	2017	Increase/(Decrease)
Assets	203,864,093.62	214,447,507.76	(10,583,414.14)
Liabilities	73,910,986.48	86,409,173.11	(12,498,186.63)
Government Equity	129,953,107.14	128,038,334.65	1,914,772.49
Income	154,958,321.33	132,047,410.17	22,910,911.16
Expense	150,389,857.54	116,959,102.39	33,430,755.15
Appropriation	150,672,940.00	127,510,438.00	23,162,502.00
Obligation	139,058,306.50	116,190,735.13	22,867,571.37

The funds received by the LGU and transferred to other agencies and non-government and people's organizations for CY 2018, with comparative figures for CY 2017, are presented in the following table:

Funds Received from Other Agencies	2018	2017	Increase/(Decrease)
NGAs	36,047,079.00	21,551,000.00	14,496,079.00
LGUs	0.00	1,022,000.00	(1,022,000.00)
NGOs/POs	0.00	0.00	0.00
Others	0.00	0.00	0.00
Total	36,047,079.00	22,573,000.00	13,474,079.00

Funds Transferred to Other Agencies	2018	2017	Increase/(Decrease)
NGAs	2,528,500.00	1,710,998.00	817,502.00
LGUs	687,210.00	0.00	687,210.00
NGOs/POs	0.00	0.00	0.00
Others	0.00	0.00	0.00
Total	3,215,710.00	1,710,998.00	1,504,712.00

C. Independent Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the LGU – Enrile, Cagayan as of December 31, 2018 due to the effects of the noted deficiencies on the balances of some accounts, as summarized in the succeeding paragraph and as discussed in detail in part II of the Report.

D. Summary of Significant Observations and Recommendations

The following are the summary of significant observations and recommendations which were discussed with the concerned Municipal Officials in an exit conference held on March 27, 2019:

1. The year-end carrying value of P171,982,469.56 of the Property, Plant and Equipment was overstated due to:
 - a) non-provision of depreciation for some PPEs totaling P45,426,662.55, contrary to Item 59 of International Public Sector Accounting Standards (IPSAS) 17;
 - b) the carrying value of the PPE account in the Statement of Financial Position does not reconcile with the balances of the individual accounts in the supporting Schedule of PPEs;
 - c) the presence of discrepancies between the general ledger account balances and the results of the physical inventory, which is contrary to Section 491 of Volume I of the Government Accounting and Auditing Manual; and
 - d) non-maintenance of PPE Ledger Cards by the Accounting Office, which is contrary to Section 114 of Volume I of the Manual on National Government Accounting System (NGAS) for LGUs.

We recommended that the Local Chief Executive require the:

- a) Municipal Accountant to prepare the necessary journal entries to take up the depreciation expense for the current year, update the related Accumulated Depreciation accounts, as well as record adjustments in the government equity account for Prior Years' depreciation expenses not previously recorded;

- b) Municipal Accountant to review and reconcile the discrepancy noted in the balances of the PPE account as reported in the Statement of Financial Position as against the corresponding schedules, to fairly present the Financial Statements; and
 - c) Municipal Accountant and the General Services Officer to:
 - i. regularly conduct reconciliation of their reports so that any discrepancy noted could promptly adjusted and reconciled; and
 - ii. maintain the required Property, Plant and Equipment Ledger Cards (PPELC), Real Property Ledger Cards (RPLC) and Property Cards, respectively.
2. The accuracy and validity of the year-end balances of the following accounts could not be relied upon, thus, resulting in the misstatement of the financial statements.
- a) RPT/SET Receivables amounting to P2,664,181.89, due to the failure of the Municipal Treasurer to furnish a duly certified list showing the names of taxpayers, the amount due and collectible for the year to the Municipal Accountant, and the non-maintenance of subsidiary ledgers by the Municipal Accountant, which are not in conformity with Section 20 of the Manual on the NGAS for Local Government Units (LGUs), Volume I and Sections 111(1) and 114(2) of Presidential Decree No. 1445.
 - b) Deferred RPT/SET amounting to P2,664,181.89, due to the failure of the Municipal Accountant to record an adjusting entry for the realized/earned Tax Revenue – RPT/SET at year-end and the non-maintenance of subsidiary ledgers, which are not in conformity with the provisions set forth in Section 64 of the Manual on the NGAS for Local Government Units (LGUs), Volume I and Sections 111(1) and 114(2) of Presidential Decree No. 1445.
 - c) Other Payables account under the Trust Fund amounting to P1,385,494.84, due to the inclusion of transactions, which pertain to other accounts, which is not in conformity with Item 4.1 of COA Circular No. 2015-009.
 - d) Various accounts under the General Fund and Trust Fund totaling P1,980,326.82 were of doubtful validity since these accounts have been dormant for 5 to 38 years.

We recommended that the Local Chief Executive:

- a) instruct the Municipal Treasurer to prepare and submit an updated Certified List of Taxpayers, bearing the names, amount due and collectible during the year, and submit the same to the accounting unit as the basis in the setting up of RPT/SEF tax receivable in the succeeding year;

- b) require the Accountant to –
 - i. use the Certified List of taxpayers prepared by the Office of the Municipal Treasurer as the basis in recording the RPT/SEF Tax Receivables at the beginning of the year;
 - ii. exert extra effort to determine the correct amount of prepayments of RPT/SET, which should be reflected as balances of the accounts “Deferred RPT/SET”;
 - iii. make the necessary adjustments in the books for the realized portion of the Deferred RPT/SET;
 - iv. prioritize the establishment of subsidiary ledgers for the respective accounts;
 - v. make the necessary adjustments to reclassify the items included in the Other Payables account to the appropriate FS accounts, to present a more reliable and accurate Financial Statements;
 - vi. exert all efforts for the collection of the receivables;
 - vii. reconcile and analyze the dormant accounts to determine whether they warrant adjustment or write-off in accordance with existing COA rules and regulations;
 - viii. furnish certification and/or reasons why the books of accounts/records/financial statements/schedules and supporting documents cannot be located; and
 - c) require proper turn-over of documents/pending work from officials and employees retiring/separating from office/service to ensure completeness of records.
3. Advances for Special Disbursing Officer totaling to P215,682.20 remained unliquidated at year-end because several provisions of COA Circular N0. 97-002 dated February 10, 1997 on the granting and utilization of cash advances were not strictly observed.

We recommended that the Local Chief Executive adopt strict measures to regulate the granting of cash advances in accordance with the provisions of COA Circular 97-002 dated February 10, 1997. Any unused or unspent cash advances should be returned or refunded.

We further recommended that the Municipal Accountant strictly monitor the settlement of unliquidated cash advances and discontinue granting additional cash advances unless all outstanding cash advances have been liquidated. Failure to liquidate the cash advances within the prescribed period shall constitute a valid cause to withhold the salary of the grantee.

4. Accounting and reporting guidelines on local roads asset management embodied in COA Circular No. 2015-008 were not strictly observed by concerned departments, thus the correctness of the balance of Road Networks account of ₱30,460,213.58 could not be ascertained. Further, this account was not correctly valued in the financial statements as not all road networks were provided with allowance for depreciation.

We recommended that the Local Chief Executive enjoin the concerned departments to strictly follow and implement the provisions contained in COA Circular No. 2015-008, to fairly present the book value of the Road Networks account in the Financial Statements of the Municipal Government.

5. The accuracy and validity of the year-end balances of various accounts under the General Fund and Trust Fund could not be relied upon due to the absence of subsidiary ledgers and supporting schedules, which is not in conformity with the provisions of the New Government Accounting System (NGAS), thus, resulting in the misstatement of the financial statements.
 - a) Inventories amounting to P2,044,056.48.
 - b) Other Payables under the General Fund amounting to P27,206.07.
 - c) Due to NGAs under the General Fund and Trust Fund amounting to P1,172,228.10 and P10,629,058.91, respectively.
 - d) Due to LGUs under the General Fund amounting to P2,862,818.88.
 - e) Receivables – Disallowance/Charges under the Special Education Fund and Trust Fund amounting to P732.01 and P33,654.21, respectively.
 - f) Due from Other Funds totaling P1,278,468.64.
 - g) Due to Other Funds amounting to P1,278,453.96.

We recommended that the Local Chief Executive require the:

1. Municipal Accountant to –
 - i. prioritize the establishment of subsidiary ledgers for the respective accounts;
 - ii. maintain the perpetual inventory records comprising of Supplies Ledger Cards (SLC) for each commodity/stock;
 - iii. conduct a thorough review and analysis of the recorded liabilities, and in the absence of any valid claimants, revert these balances to the GF so that the corresponding funds may be appropriated for current operations of the Municipality.
 - iv. furnish certification and/or reasons why the books of accounts/records/financial statements/schedules and supporting documents cannot be located;

2. General Services Office to -
 - i. provide a number on each type of supplies and maintain Stock Cards per stock number;
 - ii. perform periodic physical inventory of supplies or property and prepare and submit a copy of the Report of the Physical Count of Inventories (RPCI) to the Office of the Auditor;
 3. GSO and Municipal Accountant to regularly conduct reconciliation of their reports so that any discrepancy noted could promptly adjusted and reconciled; and
 4. require proper turn-over of documents/pending work from officials and employees retiring/separating from office/service to ensure completeness of records.
6. Balances of the Due to GSIS, Due to PHIC and Due to Pag-Ibig accounts amounting to P125,297.84, P32,274.73 and P198,143.55, respectively, do not reflect the actual amount payable because prior years' understatements were not corrected, which is contrary to Section 112 of Presidential Decree (PD) No. 1445, thus rendering the accounts unreliable.

We recommended that the Municipal Accountant review the accounts and make adjustments, if necessary, in order to reflect the correct balances of the Due to GSIS, Due to PHIC and Due to Pag-Ibig accounts.

7. The LDRRMF unexpended balance totaling to P126,293.10, was not transferred to the Special Trust Fund, contrary to Item 5.1.10 of COA Circular No. 2012-12. The non-transfer of the fund opens an opportunity for the LGU to use it for activities other than those which support disaster risk reduction and management.

We recommended that the Municipal Accountant observe strict compliance with COA Circular No. 2012-02 dated September 11, 2012 on the Accounting and Reporting Guidelines for the LDRRMF of LGUs, specifically on the transfer of the unexpended/unobligated balance of the QRF and DRRMF-MOOE to the Special Trust Fund under the account "Trust Liability-DRRM" in the books.

8. The Value-Added Tax deducted and withheld by the Municipal Government for CY 2018 from the payments to contractors was insufficient by P67,960.16, contrary to the provisions of the National Internal Revenue Code (NIRC) of 1997, thereby, resulting in tax deficiency and overpayment to contractors.

We recommended that the Management:

- a) set up receivable accounts for the tax deficiencies of contractors and use the Other Receivable account for this purpose; and
 - b) require the contractors to pay the tax deficiencies. If the contractor has an existing contract with the Municipal Government, deduct the tax deficiencies from their subsequent contract payments. Otherwise, the Municipal Government may institute legal actions to recover the amounts it had paid for tax deficiencies.
9. Infrastructure projects programmed and funded out of the 20% Development Fund, General Fund-Capital Outlay and Fund Transfers from other government agencies were not completed on target dates, thus depriving the constituents of the socio-economic benefits to be derived therefrom.

We recommended that the Management fast track the implementation of all its programmed projects included in the Annual Investment Plan of the Municipality in order for its constituents to enjoy the benefits to be derived therefrom.

10. The GAD Plan and Budget for CY 2018 was not submitted to the DILG for review and endorsement, contrary to PCW-DILG-DBM-NEDA Joint Memorandum Circular No. 2013-01, as amended in PCW-DILG-DBM-NEDA Joint Memorandum Circular No. 2016-01, thus preventing the appropriate government oversight bodies from conducting review of the same.

We recommended that the LCE require the GFPS Technical Working Group to observe the scheduled GAD Planning and Budgeting as provided by PCW-DILG-DBM-NEDA Joint Memorandum Circular No. 2013-01, as amended in PCW-DILG-DBM-NEDA Joint Memorandum Circular No. 2016-01, to facilitate timely submission to the PPDO and the subsequent review and endorsement by the DILG.

E. Summary of Total Suspensions, Disallowances and Charges

Particulars	Beginning Balance	Issued During the Year	Settlement During the Year	Ending Balance	% of Settlement
<i>Suspensions:</i>					
Prior Years	64,996,366.27	0.00	0.00	64,996,366.27	0.00%
Current Year	0.00	0.00	0.00	0.00	0.00%
Total	64,996,366.27	0.00	0.00	64,996,366.27	0.00%
<i>Disallowances:</i>					
Prior Years	7,584,861.03	0.00	4,332,622.00	3,252,239.03	57.12%
Current Year	0.00	0.00	0.00	0.00	0.00%
Total	7,584,861.03	0.00	4,332,622.00	3,252,239.03	57.12%

Particulars	Beginning Balance	Issued During the Year	Settlement During the Year	Ending Balance	% of Settlement
<i>Charges:</i>					
Prior Years	0.00	0.00	0.00	0.00	0.00
Current Year	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00

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

Of the 32 audit recommendations embodied in the 2017 Annual Audit Report, eight (8) were fully implemented, 23 were partially implemented and one (1) was not implemented. The details of implementation of prior years' audit recommendations are discussed in Part III of this Report.