

## EXECUTIVE SUMMARY

### A. HIGHLIGHTS OF FINANCIAL OPERATIONS

The Local Government Unit of Madalag in the Province of Aklan estimated that the total resources for the budget year 2013 will reach P58,987,030.00, of which P57,662,030.00 or 97.75% of this will be derived from Internal Revenue Allotment (IRA). This shows that municipality is largely dependent on Internal Revenue Allotment (IRA) as its major source of revenue.

#### A.1 Sources and Applications of Funds

The municipality generated a total income of P59,691,672.17 in CY 2013. Compared to last year's total income of P54,052,225.19, this year's income posted a increase of P5,639,446.98 or 10.43% which is attributed to the increase in permits and licenses, service income and total business income earned and IRA received during the year. The comparative figures per funds are shown below:

	<u>2013</u>	<u>2012</u>	<u>Increase/ (Decrease)</u>	<u>%</u>
General Fund	<b>P59,335,948.91</b>	<b>P53,666,351.68</b>	<b>P 5,669,597.23</b>	<b>10.56%</b>
SEF	<b>355,723.26</b>	<b>385,873.51</b>	<b>( 30,150.25)</b>	<b>2.09%</b>
<b>Total Income</b>	<u>P59,691,672.17</u>	<u>P54,052,225.19</u>	<u>P5,639,446.98</u>	<u>10.43%</u>

For CY 2013, the expenditures for personal services amounted to P32,015,270.64, while P20,297,270.33 and P1,058,173.73 were expended for maintenance and other operating expenditures and financial expenditures, respectively.

Overall, the total expenditures for the year amounted to P57,632,327.53 which is P2,039,791.42 or 3.67% higher compared to last year's expenditures of P55,592,536.11. The total expenditures per fund are shown below:

	<u>2013</u>	<u>2012</u>	<u>Increase/ (Decrease)</u>	<u>%</u>
General Fund	P57,237,736.56	P55,172,459.14	<b>P 2,065,277.42</b>	<b>3.74%</b>
SEF	394,590.97	420,076.97	<b>( 25,486.00)</b>	<b>(6.07%)</b>
<b>Total Expenditures</b>	<u>P57,632,327.53</u>	<u>P55,592,536.11</u>	<u>P2,039,791.42</u>	<u>3.67%</u>

## A.2 Financial Profile

The municipality's assets, liabilities and residual equity as of December 31, 2013 were P92,989,544.92, P67,954,374.36 and P25,035,170.56, respectively, which correspondingly increased by 4.34% , increased by 5.25% and increased by 1.93% over that of last year.

	<u>2013</u>	<u>2012</u>	<u>Increase/ (Decrease)</u>	<u>%</u>
Assets	P92,989,544.92	P89,124,767.26	P3,864,777.66	4.34
Liabilities	67,954,374.36	64,562,571.22	3,391,803.14	5.25
Residual Equity	25,035,170.56	24,562,196.04	472,974.52	1.93

## A.3 Financial Ratios

Current ratio of 3.77:1 shows that only P3.77 of current assets is available for every P1.00 of current liability of the municipality. This would mean that the local government has enough funds to meet its current obligations as they become due.

A measure of an entity's financial leverage is calculated by dividing its total liabilities by government's equity. It indicates what proportion of equity and debt the entity is using to finance its assets. A high debt equity ratio, such as this ratio of 2.71:1, generally means that an entity has been aggressive in financing its growth with debt. If this debt were to increase earnings by a greater amount than the debt cost (interest), then the Municipality stands to benefit from it.

	<u>2013</u>	<u>2012</u>	<u>Increase/ (Decrease)</u>
Current Ratio	3.77:1	6.04:1	(2.27:1)
Debt Equity Ratio	2.71:1	2.63:1	0.08:1

## A.4 Appropriations/Allotments/Obligations

	<u>Appropriations</u>	<u>Allotments</u>	<u>Obligations</u>
General Fund:			
Personal Services	P 32,258,346.00	P 32,258,346.00	P 31,875,884.80
Maintenance and Other			
Operating Expenses	12,221,926.00	12,221,926.00	11,362,074.55
Capital Outlay	-	-	-
Special Education Fund	480,000.00	480,000.00	380,488.50
Special Purpose Appropriations	14,506,758.00	14,506,758.00	10,307,082.97
Continuing Appropriations	8,533,869.29	8,533,869.29	2,427,353.38
<b>Totals</b>	<b>P 68,000,899.29</b>	<b>P 68,000,899.29</b>	<b>P 56,352,884.2</b>

## **B. SCOPE OF AUDIT**

Financial and Compliance Audit were conducted on the accounts and operations of the Municipality of Madalag for the period ended December 31, 2013.

The audit was conducted to ascertain the propriety of financial transactions and compliance of the agency to prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements.

## **C. AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS**

The Auditor rendered a qualified opinion on the financial statements as of December 31, 2013 due to the agency's failure to conduct physical inventory of its PPE and to submit a RPCPPE which should be reconciled with the accounting records and the failure to submit the disbursement vouchers, official receipts and other supporting documents within the reglementary period.

## **D. SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

We favorably noted that the Municipality of Madalag, Aklan through the effort of the Municipal Accounting Office had submitted the financial statements for CY 2013 ahead of the reglementary deadline that facilitated the early preparation and submission of the Annual Audit Report.

Findings and observations on the audit conducted with the corresponding recommendations as of December 31, 2013 are summarized as follows:

**11. The existence, validity, and accuracy of the Property, Plant and Equipment (PPE) account in the total amount of P15,309,388.84 as recorded in the books of accounts could not be established due to the failure of the municipality to conduct physical inventory and prepare inventory report thereon which could have been the basis for its reconciliation against the balances per books contrary to the provisions of Section 124 of the Manual on the NGAS for LGUs, Volume I, thus rendering the accounts doubtful.**

We recommend the following:

- d. Create an inventory committee that will conduct physical inventory and come up with the inventory report of PPE;
- e. Require each department head to submit an inventory report of all PPE found in their respective offices to the designated supply officer which will be validated by the inventory committee, to facilitate the immediate inventory taking. The outcome of the Physical Inventory report should then be reconciled with the books of accounts; and

- f. Require the issuance of an Acknowledgement Receipt for Equipment (ARE) for all procured or acquired properties which shall be used to report on the receipt of property and equipment for official use from the Designated Property Officer.

**12. The Municipal Accountant submitted the disbursement vouchers, official receipts, and other supporting documents beyond the reglementary period contrary to the provision of Section 6.05 of COA Circular No. 95-006, Section 7.1 and 7.2 of COA Circular No. 2009-006, Section 122 of PD 1445 and Section 73 of COA Circular 2002-003, thus, inadequacy of records and time constraint did not permit us to apply alternative audit procedures thereon.**

We recommend that management should require the Municipal Accountant to submit the necessary financial reports and documents within the reglementary period to avoid the sanction relative thereto as provided under Section 6.05 of COA Circular No. 95-006, Section 7.1.2 of COA Circular No. 2009-006 and Section 122 of PD 1445.

**13. Collectors of the municipality did not turn-over their collections to the Municipal Treasurer within the prescribed period contrary to the provisions of Section 29 of the Manual on the New Government Accounting System (NGAS) for Local Government Units (LGUs), Volume I and Section 26 of COA Circular No. 92-382 dated July 3, 1992, which delayed the deposits of the Municipal Treasurer, thus exposing government funds to risk of possible loss, misuse, theft or wastage.**

We recommend that management must firmly require collectors to turnover their collections to the municipal treasurer daily and intact pursuant to Section 29 of the Manual on the NGAS for LGUs, Volume I and Section 26 of COA Circular No.92-382 in order to avoid the possibilities of misuse, misapplication or the ultimate loss of government funds.

Collectors who failed to abide with the above stated regulation should be dealt with accordingly. Disciplinary actions or sanctions should be imposed when necessary in order to enforce compliance with the existing rules and regulations on collection, reporting and remittances and in order to safeguard government funds.

**14. Procurement of regular office supplies was not made in bulk but instead it was made per requesting department/office which, aside from not obtaining the prices advantageous to the government, the same is inconsistent with Section 2 of RA 9184 and its Revised Implementing Rules and Regulations (IRR). This practice likewise caused unnecessary increase in cost of resources used in processing voluminous documents of**

**similar transactions and caused delays in the delivery of the needed supplies to the concerned department/office.**

We recommend that management should stop the practice of procuring regular office supplies by department/office, instead, require the BAC Secretariat to consolidate all needed supplies of departments/offices of the municipality based on their individual Project Procurement Management Plan (PPMP) to the Annual Procurement Plan (APP). Based on the APP, the BAC should adopt bulk purchases through public bidding to obtain the price most advantageous to the municipality pursuant to RA 9184 and its Revised IRR in order to promote transparency, efficiency and economy in the procurement of the office supplies.

- 15. Copies of contracts, purchase orders and delivery documents of items procured were not furnished to the Office of the Auditor within five (5) days from issuance and within 24 hours after acceptance of deliveries of goods and services, respectively, contrary to Section 6.6 and 6.9 of COA Circular No. 2009-002 dated May 18, 2009, thus hampering the timely audit review of the contracts and inspection of the deliveries.**

We recommend that management should submit copies of contracts to the ATL within five (5) days from their perfection. Likewise, submit Acceptance and Inspection Report, notification and other delivery documents within twenty four (24) hours after acceptance of the delivery of goods and services.

- 16. The non-preparation and non-submission of a monthly Report on Sources and Utilization of the Local Disaster Risk Reduction Management Fund (LDRRMF) contrary to Section 5.1.5 of COA Circular No. 2012-002 dated September 12, 2012 have constrained the auditors to a timely audit of its sources and corresponding expenditures.**

We recommend that management should strictly comply with the reporting requirement on the fund utilization pursuant to COA Circular No. 2012-002 dated September 12, 2012. In particular, the Municipal Accountant should prepare the required monthly report and the same shall be submitted to this Office by the Local Disaster Risk Reduction Management Office (MRRMO) on or before the 15th day after the end of each month through the LDRRMC and Local Development Council (LDC).

- 17. Assistance to Individuals in Crisis Situation (AICS) totaling P362,681.60 granted by the Municipality of Madalag, Aklan were not properly regulated to harmonize with the DSWD Administrative Order No. 5 series of 2008 which resulted to inequitable allocation of financial assistance to its constituents.**

We recommend that the management should formulate implementing guidelines to regulate the financial aid or assistance granted to various individuals in crisis situation.

Explicitly, an executive order to that effect should be issued by the Municipal Mayor to harmonize with the Administrative Order No. 5 series of 2008 of the DSWD and at the same time, to avoid the inequitable allocation of financial aid or assistance to the constituents of the municipality.

- 18. The municipality failed to prepare a 10-year Solid Waste Management Plan as required under Section 16 of Republic Act No. 9003 known as the Ecological Solid Waste Management Act of 2000, thus goals and objectives and the intent of the subject Act were not achieved.**

We recommend that the Municipality should prepare the required Solid Waste Management Plan to address the problems on Solid Waste in accordance with the mandates of RA 9003. Moreover, we recommend that the penal sanctions on violators be imposed as inclusion to the municipal ordinance that will be enacted to effectively maintain cleanliness in the Municipality and gain other source of income for the municipality.

- 19. The Municipality did not appropriate at least 5% or P2,949,351.505 of the total budget for the Calendar Year 2012 for GAD programs/activities as required under the provisions of Executive Order No. 273, s. 1995 and the General Appropriations Act of 2013, thereby depriving the intended beneficiaries of all the benefits they may have received should the GAD budget have been complied with.**

We recommend that the Municipality should comply with the aforecited Executive Order and General Appropriations Act of 2012 on GAD budget requirement of at least 5% of the total budget appropriation.

- 20. Inspection and validation of the municipal projects for CY 2013 favorably revealed that the same were found actually existing and have been accomplished in accordance with the contracts or the approved program of works. However, it was noted that certain projects remained unimplemented or are still on-going thereby intended benefits are not enjoyed or received on time by the constituents.**

We recommend that the management should immediately implement the subjected projects and cause the completion of the on-going project and inquire on the reason(s) for its partial or non-implementation. The municipal engineer should closely monitor the implementation of all the municipal projects to make sure that all projects are implemented as budgeted or planned in a given year.

**E. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

Out of the nine (9) audit recommendations embodied in the 2012 Annual Audit Report, two (2) were implemented, five (5) was partially implemented and two (2) were not implemented.