

## EXECUTIVE SUMMARY

### A. INTRODUCTION

The Municipality of Matungao was created as a municipality with the passage of Executive Order No. 230 dated June 20, 1949. It is classified as fifth class municipality with twelve component barangays.

#### VISION

The Municipality of Matungao envisioned to be an Agricultural center in Lanao del Norte; with an empowered and economically sufficient population in the context sustainable human development and peaceful, ecologically – balanced environment; with a governance that pursues ideals of transparency, participation, predictability, and accountability; and a leadership that is competent and just.

#### MISSION

The Municipality of Matungao is committed to:

1. Promote and intensify agricultural production in a sustainable environmentally-sound manner;
2. Strengthen the administrative capability of the local government, including its constituent barangays, in terms of technical, budgetary, leadership, structural, personnel, and support elements;
3. Improve facilities and infrastructure in the area, including roads, bridges, school buildings, health centers and agricultural facilities;
4. Strengthen citizen participation in development planning, program project implementation, and local legislation; and
5. Pursue a more peaceful co-existence of its residents regardless of religious and ethnic affiliation.

### B. FINANCIAL HIGHLIGHTS

The municipality's assets, liabilities and equity as of December 31, 2018 were P59,881,502.12, P908,547.68 and P58,972,954.44, respectively. These correspondingly increased / (decreased) by 43.72%, 2456.69% and 41.66%, respectively, over that of last year.

	2018	2017	Increase /	% over
			(decrease)	last year
Assets	59,881,502.12	41,665,903.25	18,215,598.87	43.72%
Liabilities	908,547.68	35,536.06	873,011.62	2456.69%
Government Equity	58,972,954.44	41,630,367.19	17,342,587.25	41.66%

### **C. OPERATIONAL HIGHLIGHTS**

The Auditee's results of expenses over income amounted to ₱11,294,843.57, which increased by ₱7,824,602.01 compared with last year's ₱3,470,241.56.

	<b>2018</b>	<b>2017</b>	<b>Increase / (decrease)</b>	<b>% over last year</b>
Revenue	78,201,463.41	72,121,627.43	6,079,835.98	8.43%
Expenses	66,906,619.84	68,651,385.87	(1,744,766.03)	-2.54%
Income	11,294,843.57	3,470,241.56	7,824,602.01	225.48%

In CY 2018, the Municipality of Matungao generated total actual revenue of ₱78,201,463.41. These were all used as intended for the operation of the LGU's development and programs.

### **D. SCOPE OF THE AUDIT**

In compliance with Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree 1445, we conducted financial and compliance audit on the accounts and operations of the Municipality of Matungao, Lanao del Norte for the year ended December 31, 2018, with particular emphasis on the verification, on a test basis, of (a) the propriety and validity of the agency's expenditures and revenues, and (b) the level of assurance that may be placed on management assertions on the financial statements.

The audit was aimed to determine whether the auditee has complied with applicable laws and auditing principles, standards and requirements and whether it has controlled and utilized its resources in the pursuit of its programs, projects and activities.

Our audit was conducted in accordance with the Philippine Public Sector Standards on Auditing and accordingly included such tests of the accounting records and other related documents and evaluation of the design and operating effectiveness of the controls and such other procedures, as necessary, in the audit.

### **E. INDEPENDENT AUDITOR'S REPORT**

Our audit was conducted in accordance with Philippine Public Sector Standards on Auditing and we believe that it provides reasonable basis for the results of audit.

The Audit Team rendered a qualified opinion on the fairness of the presentations of the financial statements of the Auditee as of December 31, 2018.

There is reason to believe that the financial statements are not free of material misstatement/s and were not prepared in accordance with applicable laws, rules and regulations and not in conformity with generally accepted state accounting principles because of the deficiencies noted in the audit.

## **F. COMMENTS AND OBSERVATIONS**

The comments and observations were discussed with concerned management officials and staff last February 14, 2019, and the management's comments were incorporated in the report.

1. The reliability and validity of the Property, Plant and Equipment account balance of ₱58M as of December 31, 2018 cannot be ascertained due to the failure of the auditee to conduct periodic physical inventory taking, in violation of COA Circulars and New Government Accounting System, Volume I.

We have recommended the following:

- a. The Local Chief Executive should create an appraisal / inventory committee to conduct an actual physical inventory taking of all properties, plant and equipment headed by the Acting Property Officer to be witness by any representative of the Commission On Audit.
  - b. If no records could be found, start recording the actual existence of equipment, furniture and fixtures by office and if possible reconstruct the records.
  - c. Instruct the Acting Property Officer to provide property number of all properties, at the same time, maintained stock cards with the Municipal Accountant who will maintain a subsidiary ledger card.
  - d. Segregate the unserviceable properties and prepare an Inspection and Inventory Report for disposal.
  - e. The Municipal Accountant should prepare necessary adjustments on the deficiencies noted in the course of inventory taking and make reconciliation with inventory report, stock cards and subsidiary ledgers.
  - f. The Municipal Administrator should update the list of properties that need to be insured and submit the list to the GSIS.
  - g. Provide budget for the insurance premium of properties identified to be insured especially building to protect the interest of the government.
  - h. Acting Property Officer to submit the Report of Supplies and Materials Issued (RSMI) to the accounting division; maintain SLs for the inventory accounts; and to strictly comply with the provision of Section 12 of MNGAS, Volume II and Section 114 of PD 1445.
  - i. Municipal Budget Officer to include in the supplemental budget an additional allocation of fidelity bond in order that the property officer can apply for a bond.
2. Cash in bank account in the total amount of ₱25,441,116.58 cannot be ascertained due to non-preparation of Bank Reconciliation Statement for all the funds which is

contrary to Sec. 74 of PD 1445 thereby affecting the accuracy of cash in bank account balance in the financial position of the agency.

We have recommended the following:

- a. The Municipal Mayor should arrange for the new mode of delivery of the bank statements either by pick-up by an authorized personnel or by registered mail considering the poor services made by the Post Office of the Municipality.
  - b. If not possible, the Local Chief Executive and the Municipal Treasurer as signatories of the bank accounts should authorize the Municipal Accountant to enroll in online access of their accounts so that bank statements could be readily available at any time.
  - c. The Municipal Accountant to find ways to secure the bank statements so that bank reconciliation statements can be prepared making their cash in bank balance as accurate as possible.
  - d. Request the Local Chief Executive to augment the work force of the Accounting Office to facilitate timely recording and preparation of the reports.
3. The Municipal Government is unduly exposing itself to security risks with its manual payroll system involving payments of employee's salaries and benefits with an average of P1,891,896.90 as monthly cash advances of the Municipal Treasurer which is not anymore in conformity with Section 124 of P.D. 1445 and as safe as the automated banking system or ATM.

We have recommended to the Local Chief Executive if possible, to facilitate the adoption of Payroll-thru-bank system, which is a much safer scheme that precludes hold-ups and similar incidents involving payrolls, and promotes operational efficiency.

4. The Local Government Unit failed to establish collectible Real Property Tax and Special Education Fund for the CY 2016 - 2018 due to the failure of the management to develop a comprehensive program to intensify tax collection.

We have recommended to the Local Chief Executive to give emphasis on the collection of the delinquent real property taxes by applying the administrative remedies against delinquent taxpayers as provided for under the Local Government Code.

5. Disbursement Vouchers and its supporting documents of all general fund, trust fund and special education fund covering the period January to December 2018 were not submitted within the prescribed period, contrary to Section 122 of P.D. 1445 and COA Circular No. 95-006, thus, preventing the conduct of timely audit and prejudices the interest of the Local Government Unit and defeated the purpose of providing important financial information to the users of the financial statements.

We have recommended the following:

- a. The concerned accountable offices should submit monthly the required reports and not to accumulate them on a lump sum basis so that from time to time, the audit team can update on the financial status of the Municipality.
  - b. We also require the national offices such as the DA, DILG, DSWD, DOLE and other offices to secure liquidation reports before transferring additional funds to the said LGU in order not to delay the implementation of their programs and projects and to avoid the possible misappropriation or losses or projects not implemented especially during transition period.
6. Copies of contracts totaling to ₱50,999,250.00 were not submitted contrary to COA Circular No. 2009-001 dated February 12, 2009, causing undue delay in the post audit of transactions.

We have recommended to the BAC / BAC Secretariat to submit the contracts together with the documentary requirements enumerated above with the checklist for submission to the COA Technical.

7. All Purchase Orders (PO) and copies of Acceptance and Inspection Reports on several deliveries of procured items have not been furnished the COA within the period required under COA Circular No. 95-006 dated May 18, 1995, thus preventing the Auditor from conducting a timely and effective inspection of deliveries.

We have recommended to the procuring department to submit the purchase order upon perfection of the contract and the Municipal General Service Officer to immediately furnish the Office of the Auditor a copy of the Acceptance & Inspection Report within 24hours after acceptance of all consumable deliveries and / or soon after the inspection and acceptance by the LGU personnel concerned on other items so that timely inspection can be made by the COA.

8. The municipality failed to submit the Agency Action Plan and Status of Implementation (AAPSI), in violation of Section 93 of R.A. 10651 or the General Appropriations Act FY 2015, thus depriving the Auditor and the public of the information concerning management's actions on the observations and recommendations contained in the COA Annual Audit Report CY 2017.

We have recommended to the Local Chief Executive to assign personnel who will prepare the report and submit as soon as possible its Agency Action Plan and Status of Implementation for the AAR 2015 and 2016 and that management to strictly comply with the submission of AAPSI in the ensuing annual reports.

9. Shares from National Wealth in the amount of ₱862,066.33 was disbursed without adhering to the guidelines prescribed under Section 2.4 of DILG-DOE Circular No. 98-01; hence, the desired objectives and goal of the subject fund was not effectively achieved.

We have recommended to the Budget Officer to submit projects/ programs in line with the specific guidelines provided by DILG-DOE Circular No. 98-01 at the beginning of the year to serve as guide and reference in the release of funds charged to shares from national wealth. And should ensure that projects and programs to be implemented should be in accordance with the prescribed guidelines to avoid misuse and misapplication of the subject funds.

10. Registries of funds / appropriations / allotments and obligations / utilization for each fund were not maintained by the Municipal Budget Officer due to unstable personnel contrary to Item No. 2 of COA Circular No. 2005-001 dated February 28, 2005.

We have recommended the following:

- a. The Municipal Mayor to recommend her to attend training that involved budgeting and preparation of the registries.
- b. The Municipal Budget Officer should maintain the required registries of funds / appropriations / allotments and obligations and utilization in order to avoid juggling of funds and for internal control purposes. Also, to facilitate the realization of the programs / projects / activities embodied in the Approved Annual Budget.
- c. Strict adherence to the provision of laws, rules and regulations.

11. Money value equivalent to the earned leave credits of LGU personnel were not recorded in the books of accounts disregarding COA Circular No. 2015-009 which prescribes the Revised Chart of Accounts for Local Government Units.

We have recommended to the Human Resource Officer furnishing the Accounting office with a copy of Schedule of Earned Leave Credits for all LGU personnel with money value as basis by the Accounting Office to record the leave accruals. Meantime, that budget was not yet provided, just disclosed it in the Notes to Financial Statements.

12. No GAD committee created, no Gender and Development plan and accomplishment report were submitted by the agency in violation of the provisions of Republic Act No. 10352 and PCW-NEDA-DBM Joint Circular No. 2012-01, thereby resulting to minimal attainment of the purpose for which the fund was established and depriving the intended beneficiaries on the benefit of the program.

We have recommended the following:

- a. The Municipal Mayor to create a GAD committee
- b. We also have recommended to the GAD Focal person to attend seminar on GAD mainstreaming and to ensure that activities identified as GAD are in conformity with the provisions under Philippine Commission on Women (PCW), NEDA and DBM Joint Circular No. 12-01 that is to respect, protect and fulfill the rights of woman at the socio-cultural, economic and political spheres.

- c. Further, incorporate the approved GAD plan/budget in the budget proposal for CY 2018 and onwards to ensure that the cost of implementing the GAD activities is part of the approved budget and that at least 5% of the total agency appropriations as authorized under the annual GAA, shall correspond to the activities supporting the GAD.
  - d. The Department Heads to identify the GAD related expenditures in their existing LGU Budget and Plan to be incorporated in the GAD Plan.
13. Monthly Report on Sources and Utilization of Disaster Risk Reduction and Management Fund was not prepared, contrary to the provisions of COA Circular No. 2012-002 dated September 12, 2012 on the accounting and reporting guidelines on the utilization of the Local Disaster Risk Reduction Management Fund, thereby affecting the reliability of financial information on disaster funds being reported by the Municipality due to unawareness of the concerned officials on the circular.

We have recommended that the Local Chief Executive to direct the Municipal DRRM Officer to prepare monthly Report on the Utilization of DRRM Fund, certified correct by the Accountant, and submit to the COA on or before the 15<sup>th</sup> day after the end of each month.

14. Solid waste management plan of the municipality was not submitted as mandated under RA 9003.

We have recommended to the management for executive action:

- a. Creation of the Municipal Solid Waste Management Board in accordance with the provision of law;
  - b. The plan should be reviewed and updated as required by law to ensure its sustainability, relevance and effectiveness;
  - c. Campaigns should be collaborated with the barangay officials concerned; and
  - d. Continued and stricter implementation of waste segregation, and thorough collection of waste based on set schedules.
15. Management failed to prepare Special Education Fund Budget in violation to Section 7 of Republic Act No. 5447 and incurred no amount for the SEF projects, thus, the local school board failed to use the fund depriving the beneficiaries.

We have recommended the following:

- a. The Local School Board to prepare a budget for Special Education Fund and make deliberations in accordance with the guidelines.
- b. The proceeds shall be allocated for the operation and maintenance of public schools, construction and repair of school buildings, facilities and equipment, educational research, purchase of books and periodicals, and sports development as determined and approved by the local school board.

## **G. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

We made a follow-up on the action taken by the management of Municipality of Matungao, Lanao del Norte to implement the recommendation on prior years and noted the following:

Status of Implementation	No. of Recommendation
1. Full implementation	3
2. Partial implementation	5
3. Non-implementation	7

The audit recommendations not implemented and partially implemented are reiterated in this Annual Audit Report for CY 2018 due to materiality and relevance. The results of the validation of the implementation of prior year's recommendations are presented in Part III.