

## EXECUTIVE SUMMARY

### A. Introduction

The Municipality of Sultan Naga Dimaporo, Lanao Del Norte was created as a municipality with the passage of Executive Order No. 588 dated April 10, 1953 issued by President Elpedio Quirino. The municipality has 37 barangays and has a land area of 25,055 hectares of which 92% is agricultural.

Consistent with the Local Government Code, the over-all objectives of the local government unit is to enhance revenue generation and prudent fiscal administrations, maintenance of peace, order and public safety, massive infrastructure development, agricultural/rural areas productivity and livelihood promotion, tourism and cultural promotion and comprehensive and responsive health services.

Like other local government units, the municipality enjoys genuine and meaningful local autonomy to enable it to attain its fullest development as self-reliant community and make it more effective partners in the attainment of national goals.

A financial, compliance, and performance audit was conducted on the accounts and operations of the Municipal Government of Kapatagan, Lanao Del Norte for the period January 1 to December 31, 2018. The audit was undertaken to ascertain the fairness in the presentation of the financial statements and adherence with laws, rules and regulations.

### B. Financial and Operational Highlights

The municipal government's assets, liabilities and residual equity and results of income and expenses for the calendar year 2018 with comparative figures for previous year 2017 are as follows:

	<b>CY 2018</b>	<b>CY 2017</b>	<b>Increase/ (Decrease)</b>	<b>%</b>
Assets	109,785,813	97,649,668	12,136,145	12%
Liabilities	28,952,119	35,407,837	(6,455,718)	(18%)
Equity	80,833,694	62,241,831	18,591,863	30%
Revenue	129,411,076	120,142,292	9,268,784	8%
Expenses	110,839,216	107,599,699	3,239,517	3%
Net Income	18,571,860	12,542,593	6,029,267	48%

In CY 2018, the Municipality of Sultan Naga Dimaporo generated total income of P18,571,860 exhibiting a remarkable increase by 48% from its previous income of P12,542,593.

Its source of funds are mainly from tax revenues, business and service income, and share from the Internal Revenue Allotment (IRA). These fund were used based on the approved budget for the year to discharge the functions of a local government unit as enshrined in the local government code.

The municipal government's appropriation, allotments, and obligations for the calendar year 2018 with comparative figures for CY 2017 are as follows:

	<b>CY 2018</b>	<b>CY2017</b>	<b>Increase /(Decrease)</b>	<b>%</b>
Appropriation	127,368,070	118,804,300	8,563,770	7%
Allotment	91,541,220	118,804,300	27,263,080	23%
Obligation	89,611,861	116,531,248	26,919,387	23%
Unobligated	1,929,359	2,273,052	343,693	15%

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

The auditor rendered a modified-qualified opinion on the fairness of the presentations of the Financial Statements of the Municipal Government of Sultan Naga Dimaporo, Lanao del Norte 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 the municipality (1) failed to prepare bank reconciliation statements which makes the cash account unreliable; (2) failed to conduct annual Property Plant and Equipment account inventory which gives doubts to its accuracy, existence, and reliability, and (3) recorded construction of infrastructure projects as expenses instead of property plant and equipment.

### **D. Summary of Significant Findings and Recommendations**

The following are the significant audit findings and recommendations which were discussed with the auditee. The management's comments are incorporated in the report

1. The correctness and reliability of the Cash in Bank-Local Currency account in the amount of P42,027,791 cannot be verified and ascertained due to the failure of the Municipal Accountant Designate to prepare and submit the Bank Reconciliation

Statements, contrary to Section 74 of Presidential Decree 1445 and COA Circular No. 96-11.

We have recommended the following to the Local Chief Executive:

- a. Hire a Certified Public Accountant to manage the municipality's financial transactions.
  - b. Direct the Municipal Treasurer to enroll the bank accounts to on-line E-ACCESS in the Land Bank of the Philippines, and grant access to the Municipal Accountant Designate in order to facilitate the immediate viewing of balances.
  - c. Direct the Municipal Accountant Designate to submit the Bank Reconciliation Statements for CY 2018, and to prepare and submit the monthly Bank Reconciliation Statements for CY 2019 within the prescribed period, together with the copies of Bank Statements and other supporting documents.
2. The reliability and validity of the Property, Plant and Equipment account in the amount P66,596,468 cannot be ascertained due to the failure of the General Servicer Officer to conduct annual physical inventory for CY 2018, and maintain updated records on inventory and property, in violation of COA Circular No. 92-386 dated October 20, 1992 and New Government Accounting System, Volume I.

We have recommended the following to the Local Chief Executive:

- a. Direct the GSO to prepare and submit the Report of the Physical Count of Inventories (*RPCI*), Report on the Physical Count of Property, Plant and Equipment (*RPCPPE*), and Inventory on Local Road Networks for CY 2018;
- b. Create an appraisal/inventory committee to conduct physical inventory taking of all properties, plant and equipment to be headed by the General Services Officer;
- c. Direct the General Services Officer to prepare and maintain an updated Stock Cards for inventories and Property Cards for property, plant and equipment;
- d. Direct the Municipal Accountant Designate to prepare and maintain an updated Supplies Ledger Cards; Property, Plant and Equipment Ledger Card; and Real Property Ledger Cards;

- e. Direct the Municipal Accountant Designate and the General Services Officer to conduct periodic reconciliation their records;
  - f. Direct the Municipal Accountant Designate to provide residual value in computing the depreciation; and
  - g. Direct the General Services Officer to update the list of properties that needs to be insured and submit the list to the GSIS to be covered by insurance in order to protect the interest of the government. For lost, damaged properties without covering insurance, the liability therefore should devolve upon the parties responsible.
3. Cost of construction of several infrastructure projects in the total amount of P60,550,452 funded from National Government Agencies were recorded as expense, contrary to accounting standards provided in PPSAS 17-Property Plant and Equipment. Thus understating the Property Plant and Equipment account.

We have recommended to the Local Chief Executive to direct the Municipal Accountant Designate to review all completed projects, and record them in the appropriate property plant and equipment accounts in the General Fund for completed projects, and appropriate Construction In Progress accounts in the Trust Fund for the on-going projects, using the following adjusting entries:

Account	Debit	Credit
<b>General Fund</b>		
Property Plant and Equipment	43,052,116	
Equity		43,052,116
<b>Trust Fund</b>		
Construction In Progress	17,498,336	
Due to NGA		17,498,336

4. Bids and Awards Committee failed to submit copies of awarded contracts in the total amount of P41,378,994, contrary to COA Circular No. 2009-001 dated February 12, 2009, thus compromising timely contract review.

We have recommended to the Local Chief Executive to direct the BAC Secretariat and Municipal Engineer to submit all perfected and awarded contracts together with all the documents forming part thereof, as well as documents required in Annexes of said circular, to the audit team in order to facilitate timely auditorial and legal review as well as technical review and inspection by the COA.

5. Local Government Unit failed to establish an estimate of collectible Real Property Tax and Special Education Fund for the CY 2018 due to the failure of

the Municipal Assessor and Municipal Treasurer to institute a system which could facilitate the prompt determination, assessment, and collection of real property tax and to develop a comprehensive program to intensify tax collection.

We have recommended the following to the Local Chief Executive:

- a. Direct the Municipal Treasurer to institute a system such as E-Tracs that could facilitate the prompt determination, assessment, and collection of real property tax;
  - b. Direct the Municipal Accountant Designate to record Special Education Tax Receivable at the beginning of the year; and
  - c. Direct the Municipal Treasurer to intensify the collection of Real Property Taxes and 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
6. Approval of Disbursement Vouchers appropriated for the operation of the Sanggunian Bayan were approved by the Municipal Mayor and not by the Municipal Vice-Mayor, contrary to Section 39 of COA Circular No. 92-382.

We have recommended to the Municipal Vice-Mayor to apply for fidelity bond, and approve and countersign the disbursement vouchers and checks for the appropriation of the Sanggunian.

7. The “unexpended LDRRMF of previous years” in the amount of P4,526,952 were not used in Calendar Year 2018 because the LDRRM Council failed to include the same in the Local Disaster Risk Reduction and Management Fund (LDRRMF) Investment Plan contrary to Section 21 of RA 10121, and pertinent rules and regulations issued by NDRRMC, DBM, DILG, and COA. Thus, depriving the constituents of a timely disaster mitigation, prevention and preparedness projects/programs/activities which could have been funded from the said fund.

We have recommended to the LDRRM Council to include the unexpended LDRRMF of previous years in the Annual Investment Plan of the LDRRM Fund in order to utilize the same to fund LDRRM projects/programs/activities.

#### **E. Summary of Suspensions, Disallowances, and Charges for CY 2018.**

For the Calendar Year 2018, the Audit Team will issue appropriate Notice of Suspensions and/or Disallowances as may be warranted from the audit findings contained in this Annual Audit Report. Below is the summary of Notice of Suspensions, Disallowances and Charges issued to the Municipality of Sultan Naga Dimaporo, LDN:

	<b>Beginning (As of 1/1/18)</b>	<b>Issuance CY2018</b>	<b>Settlement CY2018</b>	<b>Ending (As of 12/31/18)</b>
Notice of Suspension	10,147,830	-	10,147,830	-
Notice of Disallowance	-	-	-	-
Notice of Charge	-	-	-	-
<b>Total</b>	<b>10,147,8230</b>	<b>-</b>	<b>10,147,8230</b>	<b>-</b>

**F. Status of Implementation of Prior Year’s Audit Recommendations.**

Out of the thirteen (12) audit recommendations embodied in the previous years Annual Audit Report, five (5) were implemented, three (3) were partially implemented, and four (4) were not implemented by the Local Government of Sultan Naga Dimaporo as discussed in Part III of this report. The following table illustrates the same:

<b>Status of Previous Year Recommendations</b>		
Implemented	5	42%
Partially Implemented	4	33%
Not Implemented	3	25%
<b>Total</b>	<b>12</b>	<b>100%</b>