EXECUTIVE SUMMARY

A. Introduction

The Municipality of Malalag, Davao del Sur was created on May 28, 1953 by virtue of Executive Order 596. Pursuant to Republic Act No. 7160, known as the Local Government Code of 1991. The Municipality, like other local government units, enjoys total independence in managing, deciding and planning its own administrative, fiscal, and developmental affairs in conformity with the national government's thrust for sustainable social and economic growth.

It is composed of fifteen (15) barangays whose populace depends largely on fishing and farming as their means of livelihood. It is classified as a second-class municipality headed by Honorable Peter Paul T. Valentin and assisted by Municipal Vice-Mayor, Sangguniang Bayan Members and Department Heads.

B. Audit Methodology

The Commission has been implementing the risk-based audit in the conduct of its audit services. However, to meet the evolving development in public governance and fund management, the results-based approach in audit was incorporated. The integration of these two approaches, called the Integrated Results and Risk-Based Audit (IRRBA) Methodology, was applied in the audit of the accounts and operations of the agency.

C. Scope of Audit

A comprehensive audit was conducted on the accounts and operations of the Municipality of Malalag, Davao del Sur for CY 2018. The audit consisted of review of operating procedures, evaluation of the LGU's programs and projects; interview with concerned government officials and employees; verification; reconciliation; and analysis of accounts; and such other procedures considered necessary.

D. Financial Highlights

A comparative analysis of the financial position, financial performance and sources and application of funds for the years 2018 and 2017 is presented below.

Account	CY 2018	CY 2017	Increase (Decrease)	
			Amount	%
Assets	279,102,964.42	248,304,196.26	30,798,768.16	12%
Liabilities	75,295,126.21	87,567,453.48	(12,272,327.27)	(14%)
Equity	203,807,838.21	160,736,742.78	43,071,095.43	27%
Revenue	153,882,719.69	144,022,608.92	9,860,110.77	7%
Operating Expenses	124,226,940.06	113,658,451.39	10,568,488.67	9%
Surplus from Current Operations	29,655,779.63	30,364,157.53	(708,377.90)	-2%

The increase in assets is due to acquisition of property, plant and equipment while the decrease in liability is due to loan repayments and liquidations of funds received from Other National Government Agencies. The revenue and operating expenses increased by 7%and 9%, respectively due to the increase of the Share from Internal Revenue Collections (IRA) and implementation of the 3rd tranche of salary standardization and remarkable increase of other maintenance and operating expenses incurred during the year 2018.

Sources and Application of Funds

For Current and continuing appropriations for both General Fund and SEF, as follows:

Description	CY 2018	CY 2017	Increase (Decrease)	
			Amount	%
Sources of Funds:				
Revenues and Receipts	224,274,908.40	256,713,069.00	(32,438,160.60)	13%
Application of Funds:				
Current Legislative Appropriations – Gen. Fund				
PS	73,901,090.12	62,453,500.39	11,447,589.73	18%
MOOE	67,688,551.88	48,613,711.91	19,074,839.97	39%
Capital Outlay	74,563,205.60	19,990,185.90	54,573,019.70	273%
Financial Expenses	4,014,102.00	6,401,492.00	(2,387,390.00)	37%
Current Legislative Appropriations-SEF				
PS	290,000.00	260,000.00	30,000.00	12%
MOOE	1,658,550.00	932,500.00	726,050.00	78%
Capital Outlay	240,000.00	326,170.00	(86,170.00)	26%
Total Current Legislative Appropriations	**222,355,499.60**	**256,713,069.00**	**(34,357,569.40)**	**13%**
Continuing Legislative Appropriations - GF				
Capital Outlay	75,000.00	0.00	75,000.00	100%
Total Continuing Legislative Appropriations	**75,000.00**	**0.00**	**75,000.00**	**100%**

E. Auditor's Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements as of December 31, 2018 because the PPE accounts balances totaling P192,631,866.92 as at December 31, 2018 were not supported with duly reconciled Report on the Physical Count of PPE (RPCPPE), thus the accuracy and reliability of accounts balances, as well as their existence and completeness, cannot be ascertained; and the accuracy of the balances of Due from Other Funds and Due to Other Funds

accounts with a net difference of P9,423,331.35 cannot be ascertained due to improper classification of transactions.

F. Summary of Significant Observations and Recommendations

The following are the audit observations and corresponding recommendations which were discussed with Management officials concerned during the exit conference conducted on February 27, 2019, details of which were also disclosed in the report.

1. The accuracy of the Advances to Officers and Employees and Due to Officers and Employees account balance cannot be ascertained due to improper accounting treatment on the grant of cash advance and the recognition of confidential expenses, both in the amount of P625,000.00, which resulted in the overstatement of liability and understatement of accumulated surplus accounts as at December 31, 2018 by P625,000.00.

   We recommended the Municipal Accountant to:

   a) Draw JEV to correct erroneous accounting entries as follows:

Advances to Special Disbursing Officer	625,000.00	
Advances to Officers and Employees		625,000.00
To recognize re-classification of account on the grant of CIF.		

Due to Officers and Employees	625,000.00	
Accumulated Surplus		625,000.00
To adjust erroneous entry in the recognition of confidential expenses.		

   b) Account the confidential expenses only after receipt of the copy of the transmittal letter duly acknowledged by the Intelligence and Confidential Fund Audit Unit (ICFAU) as provided in Item 6.3.3(e) of COA, DBM, DILG Governance Commission for GOCCs and DND Joint Circular No. 2015-01 dated January 8, 2015.

2. The accuracy of the Due to LGUs account balance amounting to P456,454.70 cannot be ascertained due to errors in the classification of accounts affecting fair presentation of account balances in the financial statements.

   We recommended the Municipal Accountant to:

   a) Review and properly analyze the nature of transaction before assigning an account to be used and to be guided with COA Circular No. 2015-009 for the Prescribed Revised Chart of Accounts for LGUs since it defines and describes the detail on when to use a specific account; and

   b) Reclassify the transfer from different barangays as Other Payables, excess funds from LGSF as Due to NGAs, and the PHIC funds for primary care expenses as to Due to Philhealth accounts.

3. The Municipal Treasurer did not strictly impose the turn-over of collection by collecting officers daily and intact and was lenient in the verification of accountable forms issued by or to collectors which resulted in delayed turn-over of collections by 2 to 25 days of amounts as much as P129,507.71 in violation to Sec. 69 of PD 1445 and related rules and regulations, thus exposing government funds to loss, misuse and/or misappropriation.

   We recommended the Municipal Mayor to:

   a) Instruct the Municipal Treasurer to discontinue the existing practice and require all collectors to turn-over/remit their collections daily and intact including those two collectors assigned at the field whose assignments are just located near the municipal hall.

      Also, the schedule of making deposits of collections to the bank shall be made daily or not later than the next banking day; and

   b) Require the Municipal Treasurer and the liquidating officer to properly review and verify all RCDs of collectors to ensure that all collections are properly accounted and deposits are turned-over/remitted intact to avoid government funds to risk of loss, theft, misuse and/ or misappropriation.

5. Several deficiencies were noted in the utilization of the 70% calamity fund as provided under Joint Memorandum Circular No. 2013-1 of NDRRMC, DBM and DILG and PD 1445, casting doubt on the propriety of transactions amounting to P1,018,371.89 and said charges may not address disaster prevention and mitigation, preparedness, response, rehabilitation and recovery in case of calamity.

   We recommended to the Municipal Mayor to:

   a) Ensure that PPAs allocated in the 70% calamity fund are those that will address disaster prevention and mitigation, preparedness, response, rehabilitation and recovery as enumerated in the Joint Memorandum Circular No. 2013-1 of NDRRMC, DBM and DILG while expenses for the normal operations of the agency shall be charged to the General Fund; and

   b) Require the accounting and/or other concerned offices to immediately submit lacking vouchers duly suspended in audit to prevent maturity to disallowance.

6. Cash advances aging from 10 days to nine (9) months granted to Officers and Employees totaling P121,267.75 remained unliquidated as at December 31, 2018 contrary to COA Circular No. 97-002which resulted in the understatement of expenses and overstatement of asset accounts during the period.
   We recommended Management to:

   a) Stop the practice of granting additional cash advance unless the previous cash advance is accounted/liquidated;

b) Require those employees whose purpose had already been served and/or those whose cash advances are no longer needed to return and/or refund the same immediately to the collecting officer; and

c) Enforce settlement/liquidation of unliquidated cash advances, otherwise impose sanction of withholding the accountable officer's salary pursuant to Sec. 5.9 of COA Circular No. 97-002.

7. Five (5) projects involving a total amount of P5.7million funded under the 20% development fund remained unimplemented as at December 31, 2018 thereby negating the purpose for which the fund was intended, that is, to provide developmental projects for the welfare of the general public.

We recommended the Municipal Mayor to:

a) Create a team or committee to handle the processing/release of evaluation results from the Bureau of Mines and Geo-Science Bureau to determine whether or not the identified area can pass the required standards and requirements;

b) Intensify the on-going negotiation with the lot owner intended for the Construction/Rehabilitation of PWS to avoid further price increases;

c) Make negotiations with adjacent lot owners for the Tourism Development Program. Request for their support and participation to the program by instilling into their minds the good intentions of the government to promote the tourism industry of the municipality;

d) Provide additional funding to acquire the needed Technical and Scientific equipment, if it warrants; and

e) Re-evaluate the sustainability of project livelihood program considering the decrease in the allocation of fund. Moreover, proper planning and identification of doable development PPAs should always be considered by Management to ensure efficient and effective use of government resources.

G. Summary of Audit Suspensions, Disallowances and Charges as at Year-End

During the year 2018, no Notice of Suspension and Disallowance was issued.

H. Status of Implementation of Prior Years' Audit Recommendations

Out of the 40 prior years' audit recommendations, 17 or 42.5% were fully implemented, 15 or 37.5% were partially implemented and the remaining 8 or 20% were not implemented.