

## EXECUTIVE SUMMARY

### Introduction

The Municipality of Malangas, Zamboanga Sibugay was created by virtue of Republic Act No. 654 dated June 16, 1951. It was formerly a municipality under the Province of Zamboanga del Sur. With the passage of Republic Act 8973 creating the Province of Zamboanga Sibugay, the municipality is now one of the sixteen (16) municipalities of the new province with 25 barangays.

The Municipal Government of Malangas is envisioned to become a peaceful, self-reliant, developed community and good quality of life for the people of Malangas. Its mission is to have a sustainable development geared towards the promotion of Agro-fishery productivity of the community, provision of effective support services on infrastructure, economic and social, conservation and protection of environment, promote social justice and equity, with the concerted efforts of civil society, provincial government and national government agencies.

### Audit Objective

The objective of the audit is to ascertain the fairness of presentation of the financial statements; (b) ascertain the propriety of financial transactions and compliance with prescribed rules and regulations; c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations. Performance audit was likewise conducted with the objective of informing management where improvement can be instituted in the field of revenues, expenditures and management of resources.

### Audit Methodology

The Commission has been implementing risk-based audit in the conduct of its audit services. However, to meet the evolving developments in public governance and fund management, the results-based approach in audit was incorporated.

### Scope of Audit

An audit was conducted on the accounts and operations of the Municipal Government of Malangas, Zamboanga Sibugay for 2020. The audit consisted of review of operating procedures, evaluation of the LGU's programs and projects, interview of concerned government officials and employees, verification, reconciliation, confirmation, inspection, and analysis of accounts, and such other procedures considered necessary.

### Financial Highlights

The financial condition and results of operation of the LGU as at December 31, 2020 with comparative figures for 2019 are summarized as follows:

<b>Accounts</b>	<b>2020</b>	<b>2019</b>	<b>Increase/ Decrease</b>
Assets	559,685,174.63	500,374,400.93	59,310,773.70
Liabilities	219,309,380.38	212,757,217.13	6,552,163.25

<b>Accounts</b>	<b>2020</b>	<b>2019</b>	<b>Increase/ Decrease</b>
Equity	340,375,794.25	287,617,183.80	52,758,610.45
Revenue	161,788,697.86	149,962,004.87	11,826,692.99
Personnel Services	61,338,374.42	61,382,707.58	(44,333.16)
Maintenance and Other Operating Expense (MOOE)	67,725,550.85	40,954,183.93	26,771,366.92
Financial Expenses	-	19,151,801.82	(19,151,801.82)
Net Surplus/ (Deficit)	22,463,277.34	28,473,311.54	(6,010,034.20)

### **Independent Auditor's Report on the Financial Statements**

We rendered a qualified opinion on the fairness of the presentation of the FS for the year then ended, taking exception to the effects of the following:

1. The municipality failed to recognize donated assets thus understating its assets and overstating its net income due to unrecorded depreciation expenses.

We recommend that the Municipal Treasurer expediate the processing of documents needed to support the receipt of the donated property. The Municipal Accountant to prepare the necessary journal entry to recognize the transfer of assets from the DPWH and PLGU Sibugay in the books of accounts of the LGU. Further, depreciate retrospectively accordingly the PPE from the moment of receipt of the assets and not during recording of the assets. Moving forward to the implementation of the GAM for LGU follow the pertinent rules as described in volume 1.

2. The existence of Property, Plant and Equipment (PPE) remained doubtful due to the Municipality's failure to conduct physical inventory and to reconcile the same against the property and accounting records.

We recommended management to conduct an annual inventory of all PPE to ensure fairness of accounts' presentation in the financial statements. The management undertake disposition procedures for non-existing/missing PPEs and derecognition procedures of non-existing/missing PPE without available record of accountability as provided for in COA Circular No. 2020-006. Moving forward to the implementation of the GAM for LGU follow the pertinent rules as described in volume 1.

3. Depreciation expenses were not provided to various property, plant and equipment (PPE) resulting to misstatements of the affected accounts in the Financial Statements.

We recommended that the Municipal Accountant be directed to ascertain the amount of PPE by doing a physical count and reconciling the data with the Municipal Treasurer; and to provide depreciation to the above PPEs and to submit the lapsing schedule of depreciation for all PPEs. Moving forward to the implementation of the GAM for LGU follow the pertinent rules as described in volume 1.

4. Title of parcels of land were not yet transferred to the Municipal Government contrary to Section 39 of Presidential Decree No. 1445, thus the interest of the government was not fully protected.

We recommended that the municipality should prioritize the processing of the titling of the lands to prove claim of ownership and to safeguard government interest.

5. Completed projects in Construction in Progress (CIP) – Infrastructure Assets account remained unadjusted/transferred to its appropriate asset accounts.

We recommended that the Municipal Accountant be directed to reclassify all completed projects in the CIP account to the appropriate asset accounts. Moving forward to the implementation of the GAM for LGU follow the pertinent rules as described in volume 1.

6. Material prior period errors which were corrected during the year were not corrected retrospectively in the first set of financial statements as required by International Public Sector Accounting Standards No. 3 (IPSAS 3).

We recommended that the Local Chief Executive direct the Municipal Accountant to strictly observe the rules and regulations on the preparation of the financial statements. Also, the Municipal Accountant to revisit the provisions of the International Public Sector Accounting Standards (IPSAS) and other COA issuances particularly on the preparation and presentation of restated financial statements. Moving forward to the implementation of the GAM for LGU follow the pertinent rules as described in volume 1.

7. Procurement of inventory items and semi-expendable supplies and materials was recorded as outright expense instead of recording it to the appropriate asset account.

We recommended that the Municipal Accountant, in recording procurement made by the municipality, consider the asset recognition principle where an asset should be recognized when it is probable that future economic benefit will flow to the enterprise or agency and it can be measured reliably. Also, the Municipal Accountant to make the necessary adjusting entries to properly classify the accounts to come up with a reliable financial statements. Moving forward to the implementation of the GAM for LGU follow the pertinent rules as described in volume 1.

8. The balances of reciprocal accounts, Due from Other Funds and Due to Other Funds were not reconciled contrary to International Public Sector Accounting Standards thus, unreliable.

We recommended that the Municipal Accountant be directed to reconcile the balances of reciprocal accounts so that only the net amount shall be reflected in the financial statements. Further, we recommend that the Accountant make a detailed review of the accounts and determine the cause of the unreconciled amounts. Thereafter, to make the necessary adjustments/corrections in the books of accounts to present the correct balances of the affected accounts

9. Liabilities are not reconciled violating the basic accounting principle on recognition of liabilities.

We recommend that the Municipal Accountant be directed to evaluate the liabilities of the Municipality and determine the causes of the unreconciled amounts. Follow the basic accounting principle on the recognition of liabilities and make the necessary correcting entries.

10. Disclosures of information in the Notes to Financial Statements were not presented as required by International Public Sector Accounting Standards.

We recommend that the Local Chief Executive direct the Municipal Accountant to strictly observe the rules and regulations on the preparation of the financial statements. Also, the Municipal Accountant to revisit the provisions of the International Public Sector Accounting Standards (IPSAS) and other COA issuances particularly on the preparation and presentation of accounts in the financial statements.

### **Significant Observations and Recommendations**

In addition to the above-noted deficiencies, below are the significant audit observations and recommendations noted in the course of the audit:

1. Completeness and proper monitoring of the implementation of the Emergency Subsidy Program (ESP) as implemented through the Social Amelioration Program (SAP) cannot be ascertained due to non-adherence to the prescribed processes and requirements.

We recommended that the LGU comply with the pertinent requirements and regulations concerning the ESP and SAP. Also, the Local Chief Executive advise the MSWDO and Municipal treasurer to timely distribute future ESPs and liquidate the same following the prescribed timeline.

2. The large dependency on external sources of income such as Internal Revenue Allotment (IRA) vis-à-vis the local taxes and service and business revenue remains consistent for the past five (5) years, an indication of stagnant development in devising new local revenue programs and collections efforts. Meanwhile, collection target for local revenue taxes was not met for CY 2020, with a shortfall of P581,347.05.

We recommend that Local Finance Committee to identify additional sources of income and/or push for the passage of updated revenue code to boost local taxation and design a systematic and realistic forecasting of revenue collection based on the current state of the Municipality's economic enterprises; and the Municipal Treasurer to monitor, intensify and strategize collection efforts from Service and Business sources.

3. The Municipality utilized ₱ 7,048,879.96 or 25% of the appropriated budget of ₱28,500,000.00 for development projects in CY 2020, hence, affecting the efficiency and effectiveness of the LGU's delivery of the socio-economic

development to its constituents particularly the marginalized sectors.

We recommend that the management review the continuing appropriations, and the current appropriations involving the use of 20% LDF and make sure that all this project will be implemented in the current year. The management may need to enter into contract with competent outside contractor through public bidding if necessary, in addition to its own capability to implement the projects.

4. The utilization of the Local Disaster Risk Reduction and Management Fund allocated for various transactions was not maximized, thus, may impede the enhancement of the Municipality's disaster preparedness and response capabilities.

We recommend that the Municipality maximize the utilization of LDRRMF to enable the Municipality to implement projects related to disaster prevention, mitigation and preparedness within the scheduled timeframe. Expedite the implementation of all PPAs under LDRRM to prevent possible loss of life, damage to government property, and loss of livelihood.

**Summary of total suspensions, disallowances and charges as of year-end**

The reported audit suspensions, disallowances and charges of the LGU as at December 31, 2020 were as follows:

	Beginning Balance (As of 1/1/2020)	This Period January 1 to December 31, 2020		Ending Balance (As of 12/31/20)
		NS/ND/NC	NSSDC	
Notice of Suspension	0.00	0.00	0.00	0.00
Notice of Disallowance	30,962.89	0.00	0.00	30,962.89
Notice of Charge	0.00	0.00	0.00	0.00
<b>Total</b>	<b>30,962.89</b>	<b>0.00</b>	<b>0.00</b>	<b>30,962.89</b>

**Status of prior years' audit recommendations**

Of the sixty-one (61) prior years' recommendations, twelve (12) were implemented and forty-nine (49) were unimplemented as of December 31, 2020 as shown in the results of validations.