

EXECUTIVE SUMMARY

I. Introduction

a. Agency Profile

The Municipality of Lutayan was formerly a barrio of Buluan, Cotabato now Maguindanao which became a municipality by virtue of RA 4864 on May 8, 1967. Bai Salilang Mangelen was elected as first mayor of the municipality after six (6) months it was created. The municipality has a total land area of 27,100 hectares with 11 barangays, nine of these are considered plain and two have mountainous range on their eastern side making borders with that of the Municipality of Lutayan. The municipality has four types of climate, characterized by an even distribution of rainfall throughout the year. This makes most parts of the municipality very well suited to crop production and livestock production.

b. Audit Methodology

The audit was conducted in accordance with applicable legal and regulatory requirements, and generally accepted auditing standards. Those standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

Deficiencies observed in the course of audit were earlier communicated through Audit Observation Memoranda (AOM) and discussed in an exit conference conducted with the concerned officials and employees of the Municipality. Management's comments were incorporated in this Annual Audit Report (AAR), where applicable.

c. Scope of Audit

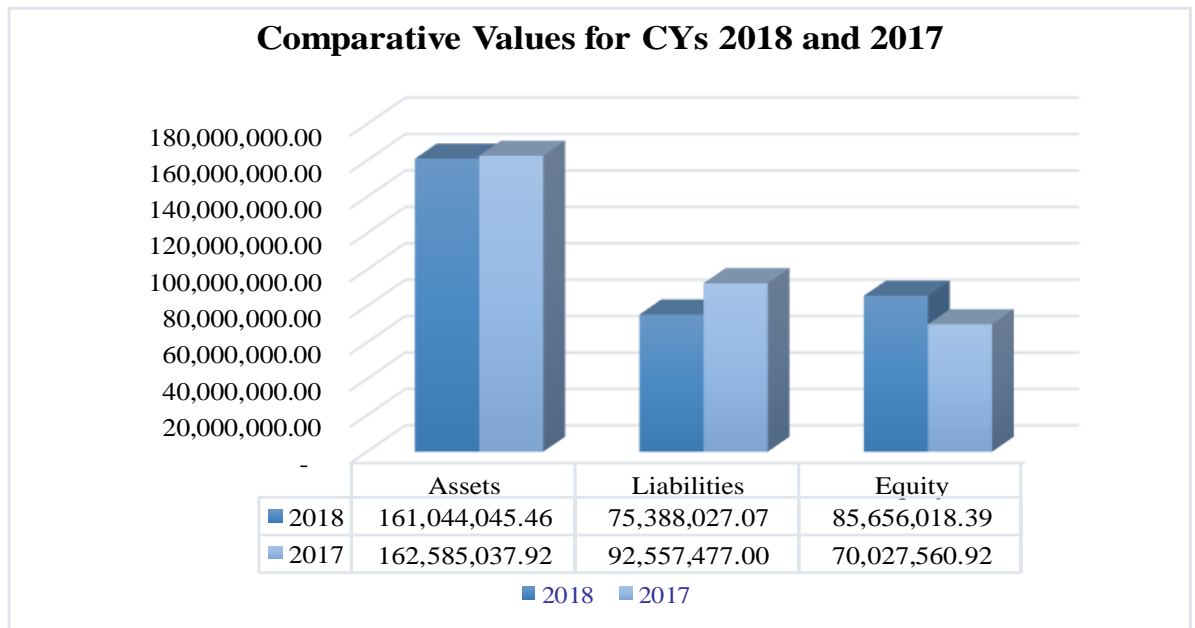
A financial and compliance audit was conducted on the Municipality of Lutayan covering the period January 1 to December 31, 2018. The audit, which was conducted on a test basis, was focused primarily on the validity and propriety of transactions, as well as the fairness of the presentation of the financial statements. Also, value-for-money audit was conducted on the implementation of the programs, projects and activities of the Municipality.

II. Financial Highlights

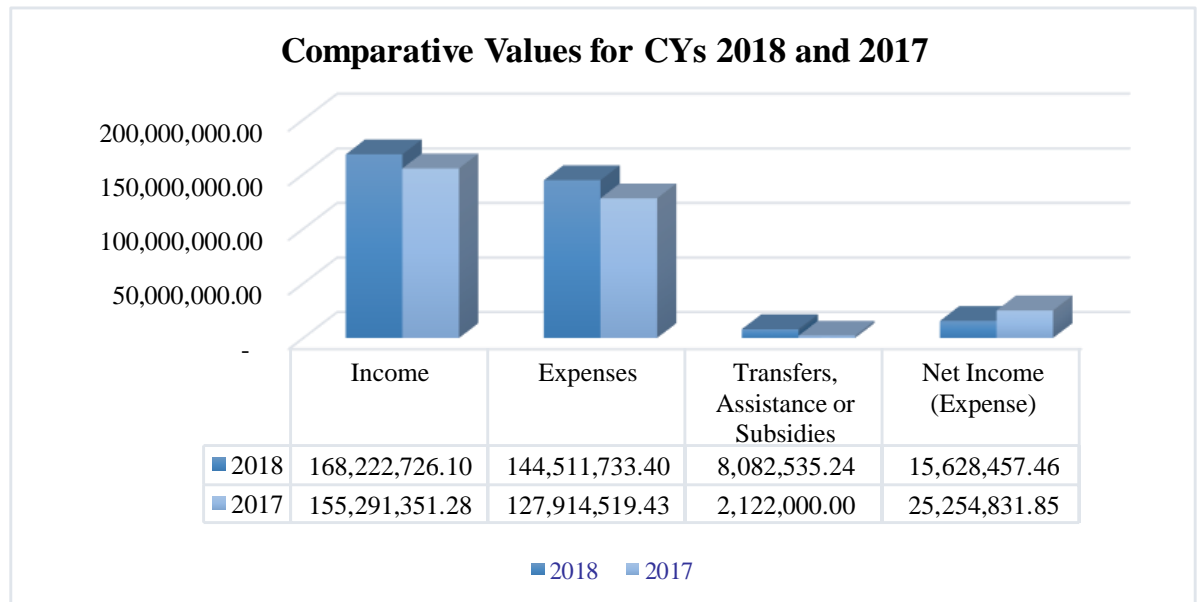
For CY 2018, the Municipality collected and realized a total income of ₱168,222,726.10 of which ₱144,511,733.40 was expended in carrying out its operations.

The Municipality's total assets, liabilities, and equity as of December 31, 2018, for all funds, were ₱161,044,045.48, ₱75,388,027.09 and ₱85,656,018.38 respectively.

a. Financial Condition



b. Financial Performance



III. Independent Auditor's Opinion

The auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of Lutayan, Sultan Kudarat as of December 31, 2018, due to doubtful accuracy and existence of assets and liabilities accounts.

IV. Summary of Significant Observations and Recommendations

Summarized below are the significant audit observations and the corresponding recommendations noted during the audit.

- 1. Nine (9) asset accounts and nine (9) liabilities accounts totaling ₱161,044,045.48 and ₱75,388,027.09, respectively cannot be fully established due to absence of details and not fully supported with Subsidiary Ledgers/Schedules and failure to conduct a complete physical inventory of Property, Plant and Equipment, hence affecting the fairness of presentation of the financial statements at year-end.**

We recommended that the Local Chief Executive instruct the:

1. Municipal Accountant to (i) maintain detailed subsidiary ledgers of all the controlling accounts appearing in the General Ledger; (ii) prepare and submit the monthly Bank Reconciliation Statements; (iii) trace and record the adjustments to reconcile the difference between the recorded RPT and SET Receivables; (iv) analyze the Inter-Agency Receivables that are dormant and long outstanding for proper disposition and de-recognition, if warranted; (v) maintain PPE Ledger Cards for each item as control records; and (vi) adopt the perpetual inventory method of accounting for all supplies and materials procured; and
 2. Municipal Treasurer to (i) maintain Property Cards for each item of PPE and facilitate regular reconciliation of records with the ledger cards of the Accounting Office; and (ii) maintain Stock Cards and monitor issuances of supplies and materials.
 3. BAC to procure an accounting software that will organize, facilitate fast and detailed recording and generation of accounting reports.
- 2. Weaknesses of controls in cash management system due to absence of operations manual, inadequate practices and processes resulted in lapping of collections by most collectors/liquidating officer for a minimum holding period of 1 day to over 28 days. Moreover these weaknesses expose the Municipality to high risk of theft of cash and record-keeping errors.**

We recommended that chief executive cause the creation of a task force to evolve a manual of policies and procedures with reference to existing COA policies and procedures on cash management system to address the above cited weaknesses in internal control.

- 3. The Municipality attained its overall estimated local revenue target by ₱990,790.10 but fell notably low in some individual revenue targets due to inadequacies in tax and revenue administration, resulting in the Municipality's dependency on Internal Revenue Allotment (IRA) for its development programs.**

In order to address the observations and increase collections, we recommended that the Municipal Treasurer:

1. Improve revenue forecasting by using the forecasting tools provided by the Bureau of Local Government Finance (BLGF);
2. Institute periodic review and assessment during the year to ascertain whether collection targets are attained. The reasons for the shortfall in collections should be analyzed and alternative actions should be looked into to improve revenue projections;
3. Inspect business establishments within the jurisdiction of the Municipality to ensure effective and efficient collection of business taxes as mandated under [Section 470 (d)(4)] of LGC;
4. Maintain and update the tax information system of the Municipality thru:
 - establishing a tax roll for each type of tax and revenue imposed in the Revenue Code;
 - conduct of tax census and develop revenue data bank; and
 - maintaining a systematic and organized records of payments of all taxpayers.
5. Furnish the Accountant the complete and accurate list of taxpayers with the corresponding amount of taxes due and collectibles for the year as basis to record the correct Real Property Tax (RPT) and Special Education Tax (SET) Receivables in the books;
6. Institute measures and strategies to efficiently collect various revenues provided under the Revenue Code of the Municipality, such as:
 - sending of tax/revenue bills to taxpayers;
 - thorough monitoring of payment of taxpayers and identification and collection of tax delinquencies; and

- Strict implementation of sanctions and penalties on erring taxpayers

4. 14 out 15 approved infrastructure projects funded under the 20% Development Fund amounting to ₱21,499,565.00 does not partake the nature of capital expenditures contrary to DILG-DBM Joint Memorandum Circular No. 2017-1 dated February 22, 2017.

We recommended the Municipal Development Council to ensure that all infrastructure projects under 20% Development Fund partake the nature of capital expenditures that will contribute to the attainment of desirable socio-economic development and environmental management outcomes of the Municipality and supportive in the achievement of the Philippine Development Plan and Public Investment Program.

V. Summary of Total Suspensions, Disallowances and Charges as of Year-End

In compliance with Section 6 of COA Circular No. 2009-006 dated September 15, 2009, citing the effectivity of the 2009 COA Rules and Regulations on the Settlements of Accounts, the Municipality had no balances of Suspensions, Disallowances and Charges as of December 31, 2018.

VI. Status of Implementation of Prior Year's Audit Recommendations

Of the 24 audit recommendations embodied in the prior years' Annual Audit Reports, eleven (11) were fully implemented, two (2) were partially implemented and eleven (11) were not implemented.