

## **EXECUTIVE SUMMARY**

### **Introduction**

Molave is a first-class Municipality in the Province of Zamboanga del Sur, Philippines. According to the 2010 census, it has a population of 48,939 people. The name "Molave" refers to the hard, strong and resilient tree that abounds in the place during the 1950s. It was created through the efforts of Congressman Juan Alano, as a daughter municipality of Aurora by Republic Act No. 286 on June 16, 1948.

Molave is located in the eastern part of the province of Zamboanga del Sur. It has a total land area of 21,685 hectares. Molave was designated as the new capital of the province of Zamboanga when it was created in June 16, 1948. Molave served as its capital until Zamboanga's division into Zamboanga del Norte and Zamboanga del Sur. Molave came under the Zamboanga del Sur with the town of Pagadian as its capital.

### **Audit objective**

The objectives of the audit is to (a) 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 Municipality of Molave, Province of Zamboanga del Sur for the calendar year 2022. The audit consisted of review of operating procedures, evaluation of the LGU's programs and projects, interview of concerned government officials and employees, verification, 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, 2022 with comparative figures for 2021 are summarized as follows:

<b>Accounts</b>	<b>2022</b>	<b>2021</b>	<b>Increase/ (Decrease)</b>
Assets	1,233,983	1,119,715	114,268
Liabilities	268,556	237,096	31,460

<b>Accounts</b>	<b>2022</b>	<b>2021</b>	<b>Increase/ (Decrease)</b>
Equity	965,427	882,619	82,808
Revenue	343,073	292,250	50,823
Personnel Services	113,238	97,304	15,934
Maintenance and Other Operating Expense (MOOE)	95,898	83,058	12,840
Financial Expenses	3,142	2,067	1,075
Non-Cash Expenses	32,677	27,732	4,945
Net Surplus/ (deficit)	91,511	77,745	13,766

### **Independent auditor's report on the Financial Statements**

We rendered a qualified opinion on the fairness of the presentation of the financial statements of the LGU as of December 31, 2022 due to the following:

1. Discrepancy of ₱409.906 million of the municipality's Property, Plant and Equipment balances due to the non-reconciliation of the PPE accounts against the property and accounting records;
2. Unserviceable properties costing ₱11.114 million remain undisposed and are still carried in the books at year-end;
3. Non-conduct of physical count of the municipality's Inventory accounts valued at ₱11.033 million and non-submission of Report on the Physical Count of Inventories;
4. Receivable accounts amounting to ₱1.766 million remained long outstanding or dormant in the books for more than ten (10) years; and,
5. Disclosures of information in the Notes to Financial Statements for the Local Road Network were not in accordance with COA Circular No. 2015-008, thus limiting the information provided to the users of the financial statements.

### **Significant audit 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. Water System Receivables under the Accounts Receivable account totaling ₱5.616 million could not be identified in a timely manner due to lack of subsidiary ledgers and schedules and incomplete generation of information/records of the Molave Water System Software Program (MWSSP) which is not in accordance with financial statement's assertions on Existence, Valuation, Rights and Obligations, as stated in Section 10 of the Manual on the New Government Accounting System (MNGAS) for Local Government Units (LGUs) and COA Circular No. 2016-005, thus, affecting the validity and collection of the claims and rendering the reliability of the accounts in the financial statements doubtful.

We recommended the following:

- a. The Waterworks Superintendent, in coordination with the Municipal Accountant, propose the updating of the MWSSP in order for the system to generate, on a timely manner, the total collection made during a given period. Likewise, the system should be able to also generate, system-wide, reconciliations between the billings made during the period vis-à-vis the collections made with details on the current bills and past due balances;
  - b. The Municipal Accountant be given viewing access on the MWSSP for purposes of monitoring and verification of the waterworks billing, collections and balances; and,
  - c. The Municipal Accountant, together with the Waterworks Superintendent, provide for the breakdown of the receivable account totaling ₱5.616 million for recording and monitoring purposes.
2. The status of ownership over the 11 parcels of land of the Municipality of Molave totaling ₱8.095 million as of December 31, 2022 cannot be determined as records were not available while 2 parcels of land were not yet transferred in the name of the Municipality.

We reiterated our recommendation for the Municipal General Services Officer, in coordination with the Municipal Treasurer and the Municipal Assessor, to provide the Municipal Accountant with a copy of the title of 11 parcels of land and/or obtain available documents relative to said parcels of land to determine the status of the same.

3. Accounting and reporting guidelines on the local road asset management system were not completely complied with by the Municipality, contrary to the provisions of COA Circular No. 2015-008, thereby affecting the fair presentation of the Road Networks account with a net book value of ₱189.086 million.

We recommended that the Municipal Mayor require the following:

- a) The Municipal GSO submit the Report on Local Road Network using the template provided in Annex A of COA Circular No. 2015-008 and complete the necessary information in every field; and,
  - b) The Municipal Engineer, in coordination with the Municipal Accountant, provide cost segregation of every road network owned by the Municipality per road component for the prior years and submit the data to the Municipal Accountant and the Municipal GSO.
4. Construction in Progress totaling ₱8.703 million remained unadjusted to appropriate asset accounts for several years thus, the reliability and validity of the account balance and the related asset accounts could not be ascertained.

We recommended that the Municipal Engineer submit the required Certificate of Completion of the completed projects to the Municipal Accountant for the adjustment/closing of the Construction in Progress accounts to its appropriate asset accounts.

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

The reported audit suspensions, disallowances and charges of the LGU as of December 31, 2022 were as follows:

	Beginning Balance (As of 1/1/2022)	This Period January 1 to December 31, 2022		Ending Balance (As of 12/31/22)
		NS/ND/NC	NSSDC	
Notice of Suspensions	19,589,957.88	470,280.71	221,771.82	19,838,466.77
Notice of Disallowance	1,240,473.78	0.00	0.00	1,240,473.78
Notice of Charge	0.00	0.00	0.00	0.00
<b>Total</b>	<b>20,830,431.66</b>	<b>470,280.71</b>	<b>221,771.82</b>	<b>21,078,940.55</b>

### Status of prior years' audit recommendations

Of the 38 audit recommendations contained in 2021 Annual Audit Report, 22 recommendations were implemented, and 16 were unimplemented.



REPUBLIC OF THE PHILIPPINES  
**Commission on Audit**  
**REGIONAL OFFICE NO. IX**  
Cabatangan Hills, Zamboanga City

## **INDEPENDENT AUDITOR'S REPORT**

**Hon. CYRIL REO A. GLEPA, M.D.**  
Municipal Mayor  
Municipality of Molave  
Province of Zamboanga del Sur

### ***Qualified Opinion***

We have audited the financial statements of the Municipality of Molave, Zamboanga del Sur, which comprise the statement of financial position as at December 31, 2022, and the statement of financial performance, statement of changes in net assets/equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly in all material respects, the financial position of the Municipality of Molave, Zamboanga del Sur as at December 31, 2022, and its financial performance, its cash flows and its statement of comparison of budget and actual amounts for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS).

### ***Basis for Qualified Opinion***

As discussed in Part II of the audit report:

- Discrepancy of ₱409.906 million of the municipality's Property, Plant and Equipment balances due to the non-reconciliation of the PPE accounts against the property and accounting records;
- Unserviceable properties costing ₱11.114 million remain undisposed and are still carried in the books at year-end;
- Non-conduct of physical count of the municipality's Inventory accounts valued at ₱11.033 million and non-submission of Report on the Physical Count of Inventories;
- Receivable accounts amounting to ₱1.766 million remained long outstanding or dormant in the books for more than ten (10) years; and,
- Disclosures of information in the Notes to Financial Statements for the Local Road Network were not in accordance with COA Circular No. 2015-008, thus limiting the information provided to the users of the financial statements.

We conduct our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the agency in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### ***Key Audit Matters***

Except for the matter described in the Basis for Qualified Opinion section, we have determined that there are no other key audit matters to communicate in our report.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the LGU's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**COMMISSION ON AUDIT**

**JANNO LOUIE CEASAR A. LUZON**

State Auditor III

OIC-Audit Team Leader

Team No. R9-08, Audit Group B, LGS

Provincial Satellite Auditing Office

Regional Center Complex, Balintawak, Pagadian City

April 3, 2023