

EXECUTIVE SUMMARY

A. INTRODUCTION

The municipality of Cervantes became a “pueblo” by virtue of Act No. 411 of the Philippine Constitution, which is “an act providing for the establishment of local civil government in the townships and settlements of the province of Lepanto –Bontoc”.

The municipal administration is under the leadership of Honorable Mayor Pablito Benjamin P. Maggay II assisted by Honorable Vice Mayor Armando P. Gaburno. Along with them are ten (10) Sangguniang Bayan Members. For calendar year 2019, the total workforce of the municipality was composed of 83 plantilla officers and employees and 335 rotating job orders which were distributed to different operating offices.

A comprehensive audit was conducted on the accounts and operations of the Municipality of Cervantes, Ilocos Sur for calendar year 2019. The audit was aimed to determine whether the financial statements were presented in accordance with International Public Sector Accounting Standards. At the same time the audit aimed to assess or determine whether the resources of the municipality were disbursed or utilized economically, effectively and efficiently. Our audit also consisted of the review of operating procedures, inspection of projects and programs, interview with officials and employees, verification and analysis of accounts and such other procedures considered necessary.

B. FINANCIAL HIGHLIGHTS

The total assets, liabilities, government equity, income and expenses for the year as compared with the previous year are shown below:

	2019	2018	Increase (Decrease)	Percentage
Assets	531,520,395.93	450,563,540.80	80,956,854.83	17.97%
Liabilities	126,052,425.49	111,372,310.33	14,680,115.16	13.18%
Gov't. Equity	405,467,970.44	339,191,230.47	66,276,739.97	19.54%
Income	160,920,402.15	204,167,267.69	(43,246,865.54)	21.18%
Expenses	96,654,556.01	85,904,227.08	10,750,328.93	12.51%

As shown above, there was a decrease in income by P43,246,865.54 or 21.18%. Contributory to this is the decrease in the receipt from the release of RA 7171 municipal share in the amount of P52,747,551.00, while other income classifications have increased.

C. OPERATIONAL HIGHLIGHTS

The total appropriations, allotments and obligations for the year as compared with the previous year, are as follows:

	2019	2018	Increase (Decrease)	Percentage
Appropriation	147,417,945.66	202,940,937.50	(55,522,991.84)	(27.36%)
Allotment	147,417,945.66	202,940,937.50	(55,522,991.84)	(27.36%)
Obligation	140,853,712.99	163,743,628.08	(22,889,915.09)	(13.98%)

The following are the major programs/projects of the Municipality of Cervantes and the corresponding accomplishments for CY 2019:

Programs/Projects	Amount
1. Constructed 10 Farm to Market Roads	P33,017,104.57
2. Constructed Post Harvest Facilities	2,647,767.71
3. Constructed Farmers Multi-Purpose Market	3,996,794.21
4. Constructed 1 Irrigation System	1,498,837.61
5. Improved/Repaired Government Buildings	7,842,313.61
6. Constructed 2 Government Buildings	5,183,748.77
7. Implemented 4 Environmental Projects	5,068,296.55

D. STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements because the completeness and accuracy of the recorded Local Road Network account amounting to P234,714,701.46 as of December 31, 2019 is doubtful due to non-conduct of inventory, non-assessment of the cost component on the present condition of the assets for proper recognition of impairment loss and non-maintenance of appropriate records in accordance with the accounting and reporting guidelines prescribed in COA Circular 2015-008. The inadequacy of the records did not allow us to apply adequate alternative procedures to determine the validity of the account.

E. SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Favorable Observations

1. The Municipality was declared as a Drug-Free Municipality by PDEA Regional Director Bryan Babang in 2019.
2. The National Solid Waste Commission approved its 10-year Ecological Solid Waste Management Plan for the period 2019-2028 last December 5, 2019 at BSA Twin Tower, Pasig City.
3. The Comillas North Integrated School was opened by the then Schools Division Superintendent Gemma Tacuycuy on July 22, 2020.
4. In compliance to the provisions of Section 244 of the National Internal Revenue Code and the provisions of Republic Act No. 10963, Otherwise Known as the "Tax Reform for Acceleration and Inclusion (TRAIN)" Law, the municipal government was able to withhold and remit income taxes, contractor's taxes and creditable value-added taxes amounting to P6,648,165.54 and P6,655,312.31, respectively for calendar year 2019 which has helped the National Government in achieving revenue targets necessary in the implementation of priority programs and projects. The difference in the two amounts represent the beginning balance which was remitted during the year.
5. The Municipality remitted the proper amounts of Social Insurance Fund (SIF) and Employees' Compensation Insurance Fund (ECIF) to the GSIS in accordance with Section 14 of the revised IRR of RA 8291 and Article 183, Chapter IV, Section 1 of PD 626.
6. The Municipal Accountant was able to submit the year-end financial statements on February 14, 2020 which is within the deadline set by the Commission.

B. Areas for Improvement

1. The completeness and accuracy of the recorded Local Road Network account amounting to P234,714,701.46 as of December 31, 2019 is doubtful due to non-conduct of inventory, non-assessment of the cost component on the present condition of the assets for proper recognition of impairment loss and non-maintenance of appropriate records inconsistent with the accounting and reporting guidelines prescribed in Commission on Audit (COA) Circular 2015-008.

We recommended and management agreed that the Municipal Accountant, the General Services Officer and the Municipal Engineer coordinate closely for the conduct of inventory and maintenance of appropriate records such as road map, a record of cost segregation of road components for road projects and assessment report of the local road at every reporting date in compliance with the accounting and reporting on the

Local Roads Asset Management System consolidated in COA Circular 2015-008. Likewise, we recommended that the Municipal Accountant see to it that there is complete description for items posted in the Subsidiary Ledgers.

2. Contractors awarded with ten (10) infrastructure projects worth P23,489,479.45 were not able to submit construction safety and health program approved by DOLE which is not in accordance with Item G, Section 37.2.3 of the 2016 Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) 9184, thus, there was no assurance of compliance with suitable Program designed for the specific works to be done for the projects.

We recommended and Management agreed that they will require the submission of Construction Safety and Health Program duly approved by the DOLE from each and every contractor duly attached to their claims as required to form part of the contract as stated in Section 37.2.3 of the 2016 Revised Implementing Rules and Regulations of RA 9184.

3. The decreasing collection of Real Property and Special Education Taxes in the three (3) year period deprived the municipal government of the immediate use of resources for various programs, projects and activities for its constituents, inconsistent with Section 247 of Republic Act (RA) 7160 or the Local Government Code.

We recommended and management agreed that they will enforce the collection of these taxes, hence,

- d. The Municipal Treasurer should issue notices of delinquency to all delinquent taxpayers for them to settle all their taxes due in order to increase income to carry out plans and objectives of the municipality;
- e. If circumstances so warrant, avail of the Civil Remedies provided for by the provisions of the Local Government Code (RA 7160), specifically Sections 174 to 176 thereof. Section 174 provides for the civil remedies which are by (a) administrative action through distraint of personal properties and (b) by judicial actions. Section 175 provides for the procedure on the distraint of personal property and Section 176 provides for the levy of Real Properties; and
- f. To secure proof from DENR that the land where the squatters erected their houses actually belonged to the government but if already awarded to them, recommended actions presented in Item b. should be enforced and implemented.

F. SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

	Beg. Balance (As of December 31, 2018)	This period January 1 to December 31, 2019		Ending Balance (As of December 31, 2019)
		NS/ND/NC	NSSDC	
Notice of Suspension	P 400,000.00	1,900,551.01	0.00	P2,300,551.01
Notice of Disallowance	0.00	54,730.39	13,664.00	41,066.39
Notice of Charge	0.00	0.00	0.00	0.00
Total	P 400,000.00	1,955,281.40	13,664.00	P2,341,617.40

G. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the twenty-three (23) prior year's audit recommendations embodied in the 2018 Annual Audit Report, eighteen (18) or 78.26% were fully implemented and five (5) or 21.74% were partially implemented by the Municipal Government, details of which are in the matrix.