

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 eight Sangguniang Bayan Members. For calendar year 2018, the total workforce of the municipality was composed of 93 plantilla officers and employees and 330 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 2018. The audit was aimed to determine whether the financial statements were presented in accordance with Philippine 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 to the previous year are shown below:

	2018	2017	Increase (Decrease)	Percentage
Assets	450,563,540.80	314,435,917.11	136,127,623.69	43.29%
Liabilities	111,372,310.33	91,450,227.25	19,922,083.08	21.78%
Gov't. Equity	339,191,230.47	222,985,689.86	116,205,540.61	52.11%
Income	204,167,267.69	92,529,797.33	111,637,470.36	120.65%
Expenses	85,904,227.08	76,891,350.96	9,012,876.12	11.72%

The increased amount in income was mainly attributed by the receipt of P101,469,584.00 from the release of RA 7171 municipal share for FY 2014 and 2015.

C. OPERATIONAL HIGHLIGHTS

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

	2018	2017	Increase (Decrease)	Percentage
Appropriation	202,940,937.50	118,382,671.81	84,558,265.69	71.43%
Allotment	202,940,937.50	118,382,671.81	84,558,265.69	71.43%
Obligation	163,743,628.08	114,603,809.63	49,139,818.45	42.88%

The following are the major programs/projects of the Municipality of Cervantes and the corresponding accomplishments for CY 2018:

Programs/Projects	Amount
I. 20% Development Fund	
Target	18,164,398.00
Accomplishment	17,917,305.41
II. RA 7171 Fund	
Target	104,440,248.00
Accomplishment	68,467,235.92
III.LDRRM Fund	
Target	4,805,534.50
Accomplishment	4,045,542.17

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 P146,389,048.27 as of December 31, 2018 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. 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 P9,643,958.80 and P9,643,828.03, respectively for calendar year 2018 which has helped the National Government in achieving revenue targets necessary in the implementation of priority programs and projects.

2. 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.
3. The Municipal Accountant was able to submit the year-end financial statements on February 14, 2018 which is within the deadline set by the Commission.

B. Areas for Improvement

1. Construction materials procured and cost of labor incurred for the repair and rehabilitation of various infrastructure projects totaling P837,969.60 charged against the current year's appropriations of the Local Disaster Risk and Reduction Fund (LDRRM) lacked the necessary supporting documents, thus the implementation of the projects are doubtful.

Also, the procurements undertaken for the said construction materials are not in accordance with the provisions of Annex "H" of RA 9184 particularly on small value procurement.

We recommended that the municipality submit the necessary supporting documents such as statement of work accomplished, pictures before, during and after the implementation of the projects and Inspection Report by the Project Monitoring Committee (PMC). Also, strictly follow the provisions stated in Annex H of RA 9184 regarding "Consolidated Guidelines for the Alternative Methods of Procurement".

2. The budgeted Special Education Fund (SEF) totaling P400,000.00 during the year were not fully utilized showing a balance of P85,277.00 which may affect the implementation of priority programs and projects supplemented by the fund.

Expenditures totaling P226,723.00 charged to the Special Education Fund (SEF) during the year were not supported with the necessary documents, thus validity of transactions could not be determined.

Also, awards and incentives totaling P12,000.00 charged to the Special Education Fund (SEF) during the year were not considered a priority expenditure chargeable to the fund stated in Section 4 of DepEd-DBM and DILG Joint Circular No. 01 series of 2017.

We recommended that the municipality fully utilize the budgeted SEF based on priority programs and projects of the 25 public schools within the municipality. Also, submit the

necessary documents to support the disbursements out of the fund. Moreover, refrain from charging awards and incentives under the said SEF program. Furthermore, give priority in appropriating expenditures that are within the bounds and regulations on SEF particularly the Sports Development Program.

3. The completed project on the Construction of Namita Agricultural Tramline System was not yet operational as of December 31, 2018, thus the economic benefit that could be derived therein was not yet attained.

We recommended that the municipality through the Sanggunian Bayan pass an appropriation ordinance for the provision of funds, facilities, services and other resources required in the operation and maintenance of the tramline system. Also, issue sangguniang bayan resolution for its specific implementing guidelines to make the completed infrastructure project operational the soonest possible time.

The other audit observations and recommendations are discussed in the report proper.

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

	Beg. Balance (As of December 31, 2017)	This period January 1 to December 31, 2018		Ending Balance (As of December 31, 2018)
		NS/ND/NC	NSSDC	
Notice of Suspension	400,000.00	0.00	0.00	400,000.00
Notice of Disallowance	878,565.00	0.00	878,565.00	0.00
Notice of Charge	0.00	0.00	0.00	0.00
Total	1,278,565.00	0.00	878,565.00	400,000.00

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

Of the seven (7) prior year's audit recommendations embodied in the 2017 Annual Audit Report, four (4) or 57.14% were fully implemented, two (2) or 28.57% were partially implemented and one (1) or 14.29% was not implemented by the Municipal Government.