

## EXECUTIVE SUMMARY

### A. INTRODUCTION

The Province of Ilocos Sur is classified as a first class province located along the western coast of Northern Luzon with an area of 2,579.60 square kilometers occupying about 20.10% of the total area of Region I. It is composed of two congressional districts, two component cities, 32 municipalities and 768 barangays. Ilocos Sur has a population of 689,668 persons as per Census 2015. This figure accounted for 13.72% of the region's total population.

The Provincial Government has a total of 2,472 personnel composed of 16 elected officials, 865 appointed officials and employees, 151 consultants and 1,440 project staff/contractual employees.

A comprehensive audit was conducted on the accounts and operations of the Province of Ilocos Sur for 2019. Our audit was aimed at determining whether financial statements were presented in accordance with International Public Sector Accounting Standards (IPSAS), whether the resources of the Province were utilized in conformity with applicable laws and regulations and to assess whether the resources of the Province were disbursed or utilized economically, effectively and efficiently. The audit was focused on the audit thrusts issued by the Local Government Sector for Calendar Year (CY) 2019. The audit consisted of review of operating procedures, inspection and validation of programs and projects, interview of concerned Provincial officials and employees, verification, reconciliation and analysis of accounts, and such other procedures deemed necessary under the circumstances.

### B. FINANCIAL HIGHLIGHTS

The total assets, liabilities, government equity, income and expenses for the years 2018 and 2019 are shown below:

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
Assets	12,403,190,935.04	9,111,954,605.73	3,291,236,329.3	36.12%
Liabilities	3,013,053,463.10	2,329,232,465.18	683,820,997.92	29.36%
Government Equity	9,390,137,471.94	6,782,722,140.55	2,607,415,331.39	38.44%
Income	4,377,374,008.35	5,719,718,952.65	(1,342,344,944.30)	23.47%
Expenses	1,796,888,462.29	3,315,684,848.73	(1,518,796,386.44)	45.81%

Likewise, the total appropriation, allotment and obligation for the year as compared with the preceding year are as follows:

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
Appropriation	4,097,852,707.62	6,428,776,721.02	(2,330,924,013.40)	36.26%
Allotment	4,097,852,707.62	6,428,776,721.02	(2,330,924,013.40)	36.26%
Obligation	2,780,913,139.64	4,619,284,339.94	(1,838,371,200.30)	39.80%

### C. OPERATIONAL HIGHLIGHTS

The following are the major programs/projects of the Province of Ilocos Sur and the corresponding accomplishments for CY 2018 and 2019:

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
<b>I. 20% Development Fund (Target)</b>	277,227,390.00	312,503,691.00	(35,276,301.00)	11.29%
Accomplishment	241,264,951.84	291,363,776.36	(50,098,824.52)	17.19%
<b>II. RA 7171/ RA 8240 Funds (Target)</b>	2,220,344,828.00	4,014,119,357.99	(1,793,774,529.99)	44.69%
Accomplishment	1,024,507,343.57	2,576,320,695.74	(1,551,813,352.17)	60.23%
<b>III. PDRRM Fund (Target)</b>	85,180,348.00	84,104,913.00	1,075,435.00	1.28%
Accomplishment	74,503,633.55	67,466,704.36	7,036,929.19	10.43%

### D. STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The auditor rendered a qualified opinion on the fairness of presentation of the financial statements because there was a discrepancy of P647,093,521.24 on the total Property, Plant and Equipment between the Financial Statements and Inventory Report, thus the validity and accuracy of the accounts were not ascertained.

### E. SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

For CY 2019, favorable observations were noted and these are as follows:

1. The Provincial Government of Ilocos Sur was a recipient for the 4<sup>th</sup> time of the Seal of Good Local Governance Hall of Fame Award from DILG. Likewise, it received the following awards:
  - a. National Anti-Drug Abuse Council Performance Award
  - b. 21<sup>st</sup> Gawad Kalasag National Awardee: Heroic Act Award for Group Category-National Level

- c. Most Outstanding Project Monitor Award-Regional Level
  - d. 2<sup>nd</sup> Place 30<sup>th</sup> National Statistic Month-Regional Level
  - e. 1<sup>st</sup> Place Best Provincial Disaster Risk Reduction and Management Council, 21<sup>st</sup> Gawad Kalasag CY 2019 Regional Awards for Excellence in Disaster Risk Reduction Management and Humanitarian Assistance-Office of the Civil Defense Regional Office.
  - f. Gawad Pasalamat 2019, Regional Level-BFAR Regional Office
  - g. Most Outstanding Migrant Desk Office thru the PHRMO-Regional Level
  - h. Top Employer for the category, Membership Savings Collection Certificate awarded by Home Development Mutual Fund (HDMF) of the PAGIBIG
  - i. Certificate of Recognition as the Best IREAP Subproject with Civil Works in terms of SPES Compliance given on January 23, 2020 by Philippine Rural Development Project (PRDP)
  - j. Certificate of Recognition as the Best Completed/Implemented Civil Works under IREAP given on January 23, 2020 by Philippine Rural Development Project (PRDP)
2. The Provincial Government of Ilocos Sur is ISO 2009:2015 Certified as of December 20, 2017 and passed the First Surveillance Audit on January 11, 2019 – valid until December 20, 2019. And also, the LGU passed the Second Surveillance Audit on January 29, 2020 – valid until December 20, 2020.

Summarized below are the other significant audit observations and the corresponding recommendations which were discussed with management during the exit conference. Management comments are included in the report, where appropriate.

1. The outstanding loan obligation of the Provincial Government to the Philippine Deposit Insurance Corporation (PDIC) increased to P1,953,667,194.92 as of December 31, 2019 due to the non-payment of the monthly amortization and interests, contrary to Section 2 of the Presidential Decree (PD) 1445 and Section 303 of Republic Act 7160, resulting in the accumulation of more penalties and interests and increased likelihood of additional legal obligations to the disadvantage of the LGU and its constituents.

We recommended that Management immediately initiate remedial actions to settle the outstanding loans payable by coordinating with PDIC and negotiate on payment scheme that the Provincial Government could possibly finance. Likewise, request for reconsideration/condonation on the accrued penalties and surcharges.

We also recommended that the Provincial Accountant and the Provincial Treasurer henceforth closely monitor authorized long term loans/interest-bearing valid commitments for the processing of regular payment for amortization without the need for statement of account/demand from lenders.

2. The validity, propriety and legality of transactions totalling P50,425,360.00 relative to the liquidation of cash advances granted to three Accountable Officers in calendar year 2018 cannot be ascertained due to the failure of the Provincial Accounting Office to submit the liquidation reports and the supporting documents to the Auditor's office, contrary to Section 5.3 of Commission on Audit (COA) Circular No. 97-002 dated February 10, 1997.

We recommended that the Provincial Accountant prioritize the submission of the aforementioned vouchers and the supporting documents to avoid disallowance and the imposition of administrative disciplinary action to concerned officials. Likewise, it was recommended that the Provincial Accountant should first verify/check the completeness of the liquidation documents before reporting it as fully liquidated/accounted in the books of accounts.

Furthermore, we recommended that concerned officials and employees strictly comply with the provisions of Section 5.3 of COA Circular 97-002 for the succeeding cash advances.

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

<b>Audit Action</b>	<b>Adjusted Beg. Balance As of Jan. 1, 2019</b>	<b>Issued this Period January 1 to December 31, 2019</b>	<b>Settlements This Period January 1 to December 31, 2019</b>	<b>Ending Balance As of December 31, 2019</b>
Notice of Suspension	1,654,451,251.82	2,448,804,905.85	453,076,447.51	3,650,179,710.16
Notice of Disallowance	15,638,828.75	45,573,971.43	901,964.12	60,310,836.06
Notice of Charge	<u>277,903.77</u>	<u>0.00</u>	<u>277,903.77</u>	<u>0.00</u>
<b>TOTAL</b>	<u><b>1,670,367,984.34</b></u>	<u><b>2,494,378,877.28</b></u>	<u><b>454,256,315.40</b></u>	<u><b>3,710,490,546.22</b></u>

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

Out of the 23 audit recommendations embodied in the 2018 Annual Audit Report, seven or 30.44% were fully implemented, nine or 39.13% were partially implemented and seven or 30.43% were not implemented by the Provincial Government, of which three partially implemented and five not implemented recommendations were reiterated in Part II of the report.