

EXECUTIVE SUMMARY

A. Introduction

The Municipality of **Cauayan** was converted into a component city known as the “**City of Cauayan**” by virtue of Republic Act No. 9017 dated July 24, 2000 passed by the Eleventh Congress of the Philippines on its 3rd Regular Session and approved on February 28, 2001 by President Gloria Macapagal-Arroyo. Cauayan City is about 375 kilometers northeast of Manila; 34.5 kilometers south of Ilagan City; about 48 kilometers north of Santiago City; and roughly 117 kilometers away from Tuguegarao City in Cagayan Province.

A melting pot, the center for tobacco industry of the north, a cosmopolitan place where people rich and diverse cultures co-mingled, and known as the “Mushroom City of the North”, Cauayan City has truly marked as fast as growing and competitive rural industrial hub in the heart of Isabela and the whole region of Cagayan Valley. With the City’s economic vitality, coupled with the collaborative efforts of the local government, the people, and the private sector, Cauayan City is on its way of achieving its mission, which is to be the “melting pot of rich and diverse cultures, center for economic progress and sustainable development, eco-friendly, innovative and God-centered community, and honest government equally collaborating with the empowered people and the private sector,” truly making IDEAL CITY of the NORTH.

B. Financial Highlights

The financial condition and results of operations of the City Government of Cauayan for CY 2017 with comparative figures for CY 2016 are as follows:

Particulars	CY 2017	CY 2016	Percent Increase (Decrease)
Assets	₱1,003,745,052.96	₱ 853,937,187.55	17.54%
Liabilities	475,679,840.33	468,885,410.03	1.45%
Government Equity	528,065,212.63	385,051,777.52	37.14%
Income	852,078,855.10	755,406,700.47	12.80%
Expenses	662,729,110.85	631,909,736.35	4.87%
Appropriation	1,291,348,130.71	945,843,812.61	36.53%

C. Scope and Objectives

The audit covered the accounts and operations of the City for the year ended December 31, 2017. It aimed to determine whether management assertion and presentation of the City’s financial statements is in adherence with the Philippine Public Sector Accounting Standards and whether existing laws, rules and regulation have been complied with. Financial and compliance audits as well as value for money audit/performance evaluation was likewise undertaken to determine whether the City’s

plans, programs and activities for the year were implemented in an efficient, effective and economical manner.

D. Auditor's Opinion on the Financial Statement

The auditor issued a Qualified Opinion on the fairness of presentation of the financial statements of the City Government of Cauayan, Isabela as of December 31, 2017.

E. Significant Findings and Recommendations

1. The City failed to allocate 1% of the Internal Revenue Allotment for the Local Council for the Protection of Children (LCPC) as required under Section 15 of Republic Act 9344 and to provide programs, projects and activities to strengthen the LCPC as stated in Section II of DILG Memorandum Circular No. 2012-120. As a result, the conduct of advocacy activities on the promotion of the rights and welfare of children and the capability buildings for the implementation of the LCPC was not achieved.

We recommended management to allocate the required 1% of IRA for the LCPC as provided under Section 15 of R.A. 9344, and to direct the members of the LCPC to prepare Local Development Plan for Children and Local Investment Plan for Children, and maximize utilization of the allocated LCPC Fund to the identified PPAs provided for in DILG MC No 2012-120, to ensure full strengthening and implementation of the LCPC.

2. Property, Plant and Equipment (PPE) balance of ₱609,498,495.76 is unreliable due to the following deficiencies (a) depreciation was not applied consistently as provided under COA Circular 2003-007 while other PPE items were not depreciated at all since their acquisitions; (b) actual inventory of PPE was not yet completed for proper verification of its existence and reconciliation between records (c) residual value were not adjusted to 5% as required in PPSAS No. 17.

We recommended management to complete immediately its ongoing inventory of their PPE accounts and reconcile with the schedule in the books. Prepare the required report RPCPPE and make the necessary adjustments between records resulting from the reconciliation made.

Further, provide depreciation to all PPE items, applying the estimated useful life of the asset as provided for in COA Circular 2003-007, consistently. Consider the change in estimated residual value to 5% of the cost in accordance with the PPSAS from 10% under the old NGAS for accurate presentation of the depreciation and net book balances. Verify correctness of the reports generated from the E-NGAS and correct erroneous result manually in a separate working paper, when necessary to comply with the requirements of PPSAS No. 17.

Make the necessary adjustment for the noted deficiencies to correct the overstatement of the net book balance of ₱73,946,110.42.

- Grant and liquidation of cash advance with a year-end balance as of December 31, 2017 of ₱3,704,072.37 were not in accordance with Section 89 of Presidential Decree No. 1445 and COA Circular No. 97-002.

We reiterated our recommendation that management should strictly adhere to the provisions of Section 89 of P.D. 1445 and COA Circular 97-002 in the grant, and utilization of cash advance. The City Accountant should, (a) regularly update the schedule of cash advances for proper monitoring; (b) send demand letters regularly to all Accountable Officers and employees to settle immediately their respective outstanding cash advances; (c) withhold any amount due to Accountable Officers and employees who refuses to liquidate their outstanding cash advances despite of demand and coordinate with the City Legal Office for the institution of appropriate legal actions as mention on above provision.

- Cash advances amounting to ₱119,278,129.35 granted to Disbursing Officer for all funds were utilized for payment of travels, payment to suppliers and other MOOE expenses, in violation of the provisions of Section 46, 47 and 48 of COA Circular 92-382.

We recommended to the management to stop the withdrawals of cash for payments in cash for suppliers, obligations, travels and other expenses. Payments should be made thru checks as cited in the regulations, except for those petty expenses which may be paid thru petty cash fund. All existing withdrawals should be liquidated and closed. Excess funds must be returned to each proper fund properly.

Payments for payrolls, allowances and petty expenses should be withdrawn under the regular cash advances and special cash advances granted must be payments for a specified purpose only.

Strict compliance with the existing rules and regulations on cash advances is enjoined.

F. Status of Audit Suspensions, Disallowances and Charges

No audit suspension or charge was issued to the City Government of Cauayan in CY 2017. On the other hand, one Notices of Disallowance was issued during the year. Table below shows the status of disallowances as of December 31, 2017.

		<u>Disallowances</u>
Beginning balances, 1/1/17	<i>* Prior to RRSA balances</i>	₱ 75,323.47
Add: Issued during the year	ND No. 2017-001(2016)	43,000.00
Total		118,323.47

Less: Settled during the year <i>Col. Under ORs# 2552943-50 & 2559651 dtd 3/29/17</i>		43,000.00
Unsettled during the year 12/31/17	₱	75,323.47

G. Compliance with BIR/GSIS/HDMF/Philhealth laws, rules and regulation

The City Government of Cauayan regularly remits the amount withheld from the employees to these government institutions within the period allowed by law in CY 2017.

	BEG. BALANCE- DEC. 31,2016	JAN-NOV		DEC		ENDING BAL- DEC. 31,2017
		WITHHOLD	REMITTANCE	WITHHOLD	REMITTANCE	
DUE TO BIR	2,816,172.03	32,131,593.05	31,746,322.05	6,486,298.31	2,274,998.62	7,412,742.72
GSIS	4,478,655.44	55,093,035.78	55,317,466.00	6,287,098.44	5,245,109.29	5,296,214.37
PAG-IBIG	1,767,748.39	20,828,722.33	20,915,173.16	1,994,137.58	1,884,309.28	1,791,125.86
PHILHEALT H	315,350.00	3,469,840.00	3,568,525.00	433,600.00	324,375.00	325,890.00
TOTAL	9,377,925.86	111,523,191.16	111,547,486.21	15,201,134.33	9,728,792.19	14,825,972.95

Per verification, all balances as of December 31, 2017 as shown above, were promptly remitted to the concerned government agencies as of January 31, 2018.

H. Compliance with Programs and Projects related to Gender and Development (GAD)

For CY 2017, the City Government of Cauayan budgeted the amount ₱39,067,225.80 for Gender and Development (GAD). Of this amount, 39,067,225.80 were utilized during the year for GAD projects/programs/activities.

I. Status of implementation of Prior Year's Audit recommendations

Out of the nine (9) audit recommendations embodied in the 2016 Annual Audit Report, eight (8) were fully implemented and one (1) were not implemented.