# EXECUTIVE SUMMARY

## A. Introduction

By virtue of House Bill No. 804, The Municipality of Cordon came into existence on July 1, 1939 sponsored by Hon. Mauro Versoza through Commonwealth Act No. 191.

Cordon is a third Class Municipality consisting of 26 barangays. It is under the administration of Municipal Mayor, Honorable Lynn M. Zuniega with the assistance of Vice Mayor, Honorable Charlita J. Mariano and the Sangguniang Bayan including the ABC President.

The Municipality maintains separate books for General Fund, Special Education Fund and Trust Fund.

Financial, compliance and value for money audits were conducted on the accounts and operations of the Municipality of Cordon, Isabela for Calendar Year (CY) 2018. The audit was conducted to ascertain the fairness of the presentation of the financial statements and compliance of the Municipality with laws, rules and regulations, as well as economical, efficient and effective utilization of resources.

## B. Financial Highlights

The total assets, liabilities, government equity, income and expenses for CY 2018 compared with that of the preceding year are as follows:

| | **CY 2018** | **CY 2017** | **Increase/(Decrease)** | **%** |
|---|---|---|---|---|
| **Financial Condition** | | | | |
| Total Assets | 223,502,622.48 | 186,185,968.18 | 37,316,654.30 | 20% |
| Total Liabilities | 72,201,375.87 | 71,514,434.41 | 686,941.46 | 1% |
| Total Government Equity | 151,301,246.61 | 114,671,533.77 | 36,629,712.84 | 32% |
| **Results of Operation** | | | | |
| Total Revenue | 147,381,761.91 | 135,138,559.62 | 12,243,202.29 | 9% |
| Total Expenses | 117,715,194.72 | 113,306,238.07 | 4,4008,956.65 | 4% |

For CY 2018, the Municipality of Cordon generated a total revenue of ₱147,381,761.91 from local taxes, permits and licenses, service and business income

and internal revenue allotment. The revenue increased by ₱12.243 million or 9% as compared with that in CY 2017.

## C. Auditor's Opinion on the Financial Statements

We rendered a modified opinion on the fairness of presentation of the Financial statements as of December 31, 2018 for the reason that the validity, propriety and existence of Property, Plant and Equipment (PPE) stated at ₱202.503 million or 90% of total assets, as at December 31, 2018 could not be ascertained due to incomplete inventory taking, unreconciled discrepancy of ₱0.505 million between accounting and property records, inclusion of unserviceable properties totalling ₱12.599 million, inadequacies of subsidiary records and accounting deficiencies, and non-recognition of Road Networks account from its Registry of Public Infrastructure, which are not in conformity with existing rules and regulations prescribed under Paragraph 2, Section 124, Volume I of Manual on the New Government Accounting System (MNGAS) for Local Government Units (LGUs); Section 13, Volume II, of the MNGAS for LGUs; Sections 58 and 79 of PD 1445; and COA Circular No. 2015-008 dated November 23, 2015.

## D. Significant Audit Observations and Recommendations

### Favorable Observations

**Tax Compliance**

The Municipality of Cordon complied with tax laws by withholding applicable taxes on compensation, goods and services and regularly remits taxes withheld from employees and suppliers/contractors.

However, in the course of audit, we noted the following significant observations, together with our recommendations.

### Financial and Compliance

1. **The accuracy and reliability of Cash-in-Bank accounts totalling ₱32,898,909.72 as at December 31, 2018 could not be ascertained due to (a) variance of ₱12,187,580.01 between the Accounting Records and Treasury Records, (b) current and prior years' book and bank reconciling items were not immediately adjusted and/or remained unadjusted; and (c) failure of the Municipal Accountant's Office to prepare and submit monthly Bank Reconciliation Statements (BRS) together with the paid checks and original copies of debit/credit memos within the prescribed period contrary to existing rules and regulations as prescribed under Section 6.3 of COA Circular No. 97-002 dated February 10, 1997 and Section 3.3 of COA Circular No. 96-011 dated October 2, 1996.**

*We recommended that Management require the Municipal Accountant:*

- *To reconcile with the Municipal Treasurer the Cash accounts records on a quarterly basis to reflect an accurate and reliable balance at any particular period in compliance to Section 6.3 of COA Circular No. 97-002 dated February 10, 1997;*

- *To create an effective and efficient internal control system to avoid future negative balances of cash in bank - accounts as prescribed in Section 58 of PD 1445, and to present accurate and reliable reports that are useful and not misleading to its users;*

- *To give immediate attention and adjust in the books the reconciling items that are duly supported with valid/complete documents, and coordinate with the concerned depositary bank regarding the bank reconciling items that need to be adjusted in the bank books in conformity with Section 3.3 of COA Circular No. 96-011 dated October 2, 1996;*

- *To coordinate with LGU's Depositary Banks for the prompt delivery of monthly Bank Statements (BS), but in cases where the BS are not yet available, secure snapshot copy of the bank transactions to facilitate the timely reconciliation of its bank accounts in compliance with COA Circular No. 96-011 dated October 2, 1996; and*

- *To promptly prepare and submit Bank Reconciliation Statements on all bank accounts, together with the paid checks and original copies of debit/credit memo, pursuant to COA Circular 96-011 dated October 2, 1996 to facilitate the immediate preparation of the necessary correction/adjusting entries for any discrepancies/errors or other reconciling items requiring corrections in order to reflect the correct balance of cash accounts in financial statements.*

**2. The account Due to Special Education Fund (SEF) totalling ₱17,374,389.57 were not automatically transferred/deposited to the SEF account maintained contrary to Section 86, Volume I, New Government Accounting System (NGAS) for LGUs.**

*We recommended that the Municipal Mayor require the Municipal Treasurer to deposit directly all her collections accruing to Special Education Fund (SEF) in the depository bank account maintained for SEF to avoid possible misappropriation and to strictly adhere to the provisions on collections pursuant to Section 86, Volume I of NGAS for LGUs***.**

3. **Due to LGU totalling ₱4,348,767.09 were still not remitted by the Municipality of Cordon contrary to Section 271 to 272 of Republic Act No. 7160 (RA 7160) or the Local Government Code of 1991 and Section 36 of COA Circular 92-382.**

   *We recommended that Management promptly remit the shares of Province of Isabela from collections of RPT and additional one (1) percent SEF Tax in compliance to Section 271 to 272 of Republic Act No. 7160 (RA 7160) or the Local Government Code of 1991 and Section 36 of COA Circular 92-382.*

4. **Cash advances amounting to ₱1,323,099.04 remained unliquidated as at December 31, 2018 contrary to Section 5 items 7 and 8 of COA Circular No. 97-002 resulting in possible misstatement of expenses and government equity accounts in the Financial Statements.**

   *We recommended that the Local Chief Executive adapt strict measures to regulate the granting of cash advances in accordance with the provisions of COA Circular 97-002 dated February 10, 1997 and adhere to Item 6.0 COA Circular 2012-004. Any unused or unspent cash advances should be returned or refunded.*

   *We further recommended that the Municipal Accountant strictly monitor the settlement of unliquidated cash advances and discontinue granting additional cash advances unless all outstanding cash advances have been liquidated. Subsequently, officials and employees with outstanding cash advances who get separated from the service should not be cleared from money/property accountability unless liquidations are made. We also recommended to stop the granting of cash advance to officers and employees whose position/designation does not conforms to the definition of accountable officer as stated in the aforementioned circular.*

5. **Unused balances from completed projects totalling ₱313,279.88 out of fund transfers from different national government agencies were not returned contrary to Sections 4.9 and 6.7 of COA Circular No. 94-013 dated December 13, 1994.**

   *We recommended for the immediate return of the unused balances of completed projects to the source agencies to comply with Sections 4.9 and 6.7 of COA Circular 94-013 dated December 13, 1994.*

## Value for Money Audit

*6.* **The Municipality of Cordon was unable to utilize ₱6.995 million or 30.26% out of ₱23.120 million appropriations for 20 percent Development Fund (DF), thus depriving the intended beneficiaries on the consequential socio-economic and environmental benefits that could have been derived therefrom.**

*We recommended that management meticulously and judiciously consider projects before its inclusion in the Local Development Fund (LDF) and Annual Investment Program and promptly implement programs/project/activities embodied in the 20 percent LDF in order to achieve the desirable socio-economic and environmental benefits as prescribed under DILG & DBM Joint Memorandum Circular (JMC) No. 2017-1 dated February 22, 2017.*

## E. Status of Audit Suspensions, Disallowances and Charges (SASDC)

For CY 2018, one (1) notice of disallowance was issued but has been settled immediately. As at December 31, 2018, disallowances recorded in the books amounting to ₱158,465.61 represents disallowances of previous years (prior to the implementation of the Rules and Regulations on the Settlement of Accounts contained under COA Circular No. 2009-006 dated September 15, 2009).

## F. Status of Implementation of Prior Year's Audit Recommendations

Out of the thirteen (13) audit recommendations embodied in the CY 2017 Annual Audit Report, four (4) were fully implemented, two (2) were partially implemented and the remaining seven (7) were not implemented and being reiterated in this report.