

EXECUTIVE SUMMARY

A. INTRODUCTION

The Municipality of San Esteban, Ilocos Sur was known for the name “cabagbagotan”, a wild bush that produces numerous and elongated woody stems which bears berry-like fruits. Another legend was that of a stranger named “Iban” or “Esteban” who came to the town. For undisclosed reasons, the townsfolk stoned him to death. They even beheaded him and held a feast around his head.

The Municipality of San Esteban is headed by Honorable Mayor Ray A. Elaydo and is supported by eleven (11) elective officials, thirty four (34) permanent, eleven (11) temporary and four (4) casual employees.

A comprehensive audit was conducted on the accounts and operations of the Municipality of San Esteban, Ilocos Sur for 2016. Our audit was aimed at determining whether financial statements were presented in accordance with Philippine Public Sector Accounting Standards and whether the resources of the Municipality were utilized in conformity with applicable laws and regulations. Value for Money Audit was focused on the utilization of the 20% Development Fund of the municipality. The audit consisted of the review of operating procedures, inspection and validation of municipal projects and programs, interview with officials and employees, verification and analysis of accounts and such other procedures considered necessary under the circumstances.

B. FINANCIAL HIGHLIGHTS

The municipality’s assets, liabilities, government equity, income and expenses for the year as compared to the previous year are shown below:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
Assets	P359,042,404.69	P109,644,227.47	P249,398,177.22	227.46%
Liabilities	23,641,998.85	31,696,878.98	8,054,880.13	25.41%
Government Equity	335,400,405.84	77,947,348.49	257,453,057.35	330.29%
Income	147,326,826.64	39,125,568.40	108,201,258.24	276.55%
Expenses	65,039,181.19	36,286,861.49	28,752,319.70	79.24%

The increase in Income and Government Equity accounts was mainly due to the recording as Income of the shares of the Municipality from tobacco excise tax under Republic Act No. 7171 which were received during 2016 in the aggregate amount of P104,631,864.00. During calendar year 2015, said shares from tobacco excise taxes amounting to P50,428,617.00 were taken up as trust liability pursuant to directive issued by the Department of Budget and Management.

C. OPERATIONAL HIGHLIGHTS

Total appropriations and expenditures for the year as compared to the previous year are shown below:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
Current Appropriation	P 148,853,888.55	P 38,527,419.01	110,326,469.54	286.36%
Expenditures	72,721,628.91	34,977,713.23	37,743,915.68	107.91%
Continuing Appropriations	1,515,831.29	452,972.72	1,062,858.57	234.64%
Expenditures	914,342.27	13,800.00	900,542.27	6,525.67%

The increase in appropriation was mainly due to the recording as income of the shares of the Municipality from tobacco excise taxes under Republic Act No. 7171 which were received during 2016. Since these shares from tobacco excise taxes were taken up as income in the books of accounts, the same were covered by appropriation ordinance in order for these to become available for obligation. During 2015, the shares from tobacco excise taxes were taken up as trust liability under the account Due to Other NGAs; hence, the disbursements out of the fund were not covered by appropriation ordinance.

The following are some of the accomplishments of the Municipality for calendar year 2016 which were duly validated by the Audit Team, to wit:

<u>Name of Project</u>	<u>Contract Amount</u>
Flood Control Program along Brgy. San Pablo	P 4,655,080.10
Core Local Road Rehabilitation of Cappa-cappa Road	2,980,460.89
Construction of Drainage Canal with Cover at Brgy. San Rafael	997,787.07
Rehabilitation of Cappa-cappa FMR	1,938,999.14
Rehabilitation of Seawall Along Bateria Moro Watch Tower	968,671.33
Construction/Improvement of Farmer's Multi-Purpose Bldg. (Package)	2,983,469.12
Rehabilitation of Farm to Market Roads (Package)	4,829,932.93
Rehabilitation of Sitio Mandulon, Cabaroan Irrigation System	2,934,582.06

D. STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

We rendered an unqualified opinion on the fairness of the presentation of the financial statements because these were free from material misstatements.

E. SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Favorable Observations

1. The Municipality is religiously withholding and remitting taxes to the Bureau of Internal Revenue in compliance with Revenue Memorandum Circular No. 23-007. The total taxes withheld amounted to P5,718,295.90 which were all remitted during the year, thus strengthening state coffers and helping finance the government's development programs and projects.
2. The Municipality is religiously deducting the GSIS premiums and loan repayments from the salaries of all its officials and employees and remitting the same together with the corresponding government shares in accordance with the provisions of R.A. No. 8291, thus helping the GSIS raise resources to invest and fund the retirement claims and other benefits of its members.
3. The Municipality is a recipient of the 2015 Seal of Good Local Governance from the Department of Interior and Local Government which was awarded in November 2016.
4. There are no material adverse findings on the disbursements of special education fund.

B. Areas for Improvement

The following are the significant observations and recommendations:

1. Contracts and supporting documents of infrastructure projects were not submitted to the Auditor within five (5) working days after perfection thereof which contravenes Section 3.1.1 of COA Circular 2009-001, causing delay in the review of contracts and inspection of completed projects; thus, deficiencies could not immediately be detected and corrected.

We have recommended that the BAC Chairman and the Municipal Engineer require the BAC Secretariat to furnish the Auditor a copy of the contracts and all supporting documents within five (5) working days after execution thereof.

2. Infractions in the implementation of the provisions of the Revised Implementing Rules and Regulations (RIRR) of Republic Act No. 9184 (R.A. 9184) were noted in the audit of procurement transactions; hence, casting doubt on their validity and the interest of the municipality may not be protected.

In order to rectify the foregoing deficiencies, we have recommended that:

- a). the BAC Chairman instruct the heads of requisitioning offices to avoid indicating the brand name of items being requested in the Purchase Request and the

BAC Secretariat in the Request for Quotation, except for replacement of parts of equipment. Instead, indicate the complete specifications of the items;

b). the Bids and Awards Committee (BAC) Chairman require the BAC Secretariat to post the Notice of Award in the Philgeps and website of the procuring entity within three (3) calendar days from its issuance and the Notice to Proceed and awarded contracts within fifteen (15) calendar days from issuance of the Notice to Proceed;

c). management require future contractors to submit duly accomplished performance security with a validity period that include the one year defects liability period pursuant to Section 39 of the IRR of RA 9184. The validity period shall commence from the effectivity of the contract up to after one year from date of completion of the project or until the issuance of the Certificate of Acceptance. Moreover, the Municipal Accountant being the internal auditor of the municipality should see to it that all supporting documents of disbursement vouchers are properly accomplished to ensure validity and legality of the transactions.

d). management require future contractors to post warranty security after the defects liability period of one year from project completion. Such security must be in accordance with the schedules prescribed in Sections 62.2.3.2 and 62.2.3.3 of the RIRR of RA 9184.

3. One (1) project/program under the 20% Development Fund in the amount of P500,000.00 was not implemented thus, the constituents were deprived of the early enjoyment of intended benefits that could have been derived from the unimplemented project.

We have recommended that the municipal officials and employees concerned implement fully all the programs/ projects / activities embodied under the 20% Development Fund.

The above together with the other observations and recommendations contained in the report were discussed with concerned officials and employees of the municipality. Management's views and reactions were considered in the report, where appropriate.

F. SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

	Beg. Balance (As of Dec. 31, 2015)	This period (January 1 to December 31, 2016)		Ending Balance (As of December 31, 2016)
		NS/ND/NC	NSSDC	
Notice of Suspensions	P 0.00	P712,776.24	P712,776.24	P 0.00
Notice of Disallowances	275,000.00	73,065.84	348,065.84	0.00
Notice of Charges	0.00	0.00	0.00	0.00
Total	P 275,000.00	P785,842.08	P1,060,842.08	P 0.00

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

Of the five prior years' audit recommendations embodied in the 2015 Annual Audit Report, two or 40% were fully implemented and the remaining three or 60% were partially implemented by the Municipal Government.