

EXECUTIVE SUMMARY

A. Introduction

The LGU was created by virtue of Republic Act No. 5139 dated June 16, 1967 sponsored by then Honorable Congressman Melanio T. Singson, and was inaugurated as a new town on January 1, 1968. The Municipality of San Isidro is a 5th class municipality located on the southern part of Isabela bounded on the north by the Municipality of Alicia, on the east by the Municipality of Echague, on the northeast by the Municipality of Ramon and southwest by the City of Santiago. It has a total land area of 7,200 hectares more or less. Estimated population is at 22,758 as of the latest census conducted in the year 2010. Agriculture is the main source of income so farming is the dominant economic activity of the people. The municipality is popular for its abundance of rice, corn, duck egg and tilapia, since farmer now a days is diversifying in duck raising and aqua culture. San Isidro is composed of thirteen (13) barangays.

The audit covered the accounts and operations of the municipality for the year 2016 and was aimed at determining whether: 1) management presented fairly the financial statements of the municipality in adherence to the Philippine Public Sector Accounting Standards; 2) whether prevailing laws, rules and regulations have been complied with; 3) whether funds were utilized in the most efficient, effective and economical manner. A financial and compliance audit was conducted to achieve these audit objectives. In determining our audit trust for the year, we are guided by COA Memorandum dated, July 4, 2016, July 28, 2016, September 26, 2016 and October 11, 2016 relative to the audit instructions for CY 2016 for LGUs.

B. Highlights of Financial Information

Presented below is the financial highlights of the Municipality for CY 2016 as compared to the figures of CY 2015:

	CY 2016	CY 2015	% of Increase (Decrease)
Assets	₱309,822,070.17	₱297,272,852.56	4.22%
Liabilities	45,417,685.80	40,604,528.83	11.85%
Equity	264,404,384.37	256,668,323.73	3.01%
Income	69,308,492.17	62,113,830.12	11.58%
Expenses	60,793,044.30	50,514,203.17	20.35%
Appropriations -			
Current - GF	66,869,866.00	60,982,710.00	9.65%
Current - SEF	625,000.00	625,000.00	0.00%

C. Auditor's Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of San Isidro, Isabela as of December 31, 2016 due to: [a] unreconciled balances of Cash in Local Treasury accounts by ₱330,490.80 when

compared with balances per cash book; [b]unreconciled balance of Cash in Bank account by ₱2,503,174.92 between the general ledger and bank confirmation as a result of non-preparation of bank reconciliation statements; [c] the effects on the overstatement of assets due to unsettled cash advances of ₱21,726,874.61; [d]the continued inability of management to submit annual physical inventory report rendering Property, Plant and Equipment totaling ₱209,225,709.24 doubtful; and [e] unreconciled balance of reciprocal account Due to /Due from Other Funds by ₱10,053,412.02.

D. Summary of Significant Findings and Recommendations

1. The construction equipment of the municipality were not utilized for various projects and remained idle for several years. These were neither maintained nor absence of driver/custodian assigned to monitor the activities of said equipment thus, exposing them to further deterioration and damage that will eventually result to wastage and loss of government resources and depriving the constituents on the economic benefits from the use of these equipment.

We recommended that Management:

- a] Maximize utilization of these heavy equipment particularly for road graveling of various barangays of San Isidro, Isabela;
 - b] Assign each truck a driver/custodian from among the employees to monitor the activities of each truck and to handle the maintenance of it in order to avoid further damage brought by continuous exposure to wear and tear; and
 - c] Issue an Acknowledgement Receipt of Equipment (ARE) to establish accountability.
2. The ten (10) – Year Solid Waste Management Plan (SWMP) for CYs 2016-2025 of the Municipality was completed but not yet approved by the National Solid Waste Management Commission (NSWMC) as of year-end, although it had complied with some provisions of Republic Act No. 9003 in the implementation of ecological solid waste management plans and programs.

We recommended that Management:

- a] Follow up and make appropriate representation with the National NSWMC for the expeditious approval of the municipality's 10-year Solid Waste Management Plan to ensure compliance with the requirements of RA No. 9003; and
- b] Undertake best practices in adhering to and implementing the provisions of the Ecological Solid Waste Management Act of 2000 and its Implementing Rules and Regulations.

3. The establishment of Violence against Women's (VAW) Desk in each barangay was not undertaken hence, concerns of women may not be addressed.

We recommended that Management prioritize the establishment of VAW Desk in every barangay to address concerns of violence against women.

4. Unexpended PDAF not remitted to the National Treasury - ₱10,786,334.08

We recommended that Management remit immediately to the National Treasury the unexpended balances of PDAF pursuant to the Supreme Court Decision.

5. Significant delays in the submission of accounts, financial reports, trial balances and financial statements for CY 2016 caused the delay in our audit.

We reiterated our recommendation that the Management:

- a] Assign additional personnel to the accounting office to solve the lack of manpower to do the accounting function;
- b] Require the Municipal Treasurer and the Municipal Accountant to set up a workable system of receipt and prompt releasing/submission of documents to ensure that these are submitted on a timely basis to the accounting office for recording and subsequently forwarded to COA for review; and
- c] Require the Municipal Accountant to observe the timely submission of LGUs financial reports in accordance with the provisions of the above-mentioned laws and regulations.

6. The combined balances of Cash in Local Treasury accounts per general ledger showed discrepancy of ₱330,490.80 when compared with balances per cash book due to error in the recording process and inability of the Municipal Treasurer to post monthly balances.

We recommended that the Municipal Accountant and the Municipal Treasurer conduct regular reconciliation of the cash book and SL/GL balances to ensure completeness and accuracy of the recorded transactions and the balance of Cash in Local Treasury account as of a given period.

7. Unreconciled balance of Cash in Bank account by ₱2,503,174.92 between the general ledger and bank confirmation as a result of non-preparation of bank reconciliation statements hence, balance appearing in the financial reports as of December 31, 2016 of ₱33,911,660.23 cannot be ascertained.

We recommended that:

- a] the Municipal Accountant prepare and submit monthly Bank Reconciliation Statement of all its depository bank accounts, take up reconciling items, and effect adjustment in the GL to ensure the correct balance of the Cash in Bank accounts;
- b] the Municipal Treasurer post the balances of the Cash in Bank-LCCA account in the cashbook and coordinate with the depository bank to ensure for the prompt delivery of the monthly bank statements with supporting documents to facilitate the timely reconciliation of the Cash in Bank accounts against the GL balances; and
- c] the Municipal Accountant exert more time and effort to trace, verify and reconcile regularly the book balances against the bank records including reconciliation with the cashbook maintained by the Municipal Treasurer.

8. Unliquidated cash advances - ₱21,726,874.61

We recommended that the Management:

- a] adhere strictly with the governing laws, rules and regulations on the grant, utilization and liquidation of cash advances;
- b] send demand letters to all concerned officials and employees, active or retired from government service pursuant to COA Circular No. 2012-004 and enforce settlement/s of their unsettled balances;
- c] not issue clearances for money and property accountabilities to municipal officials and employees who are due to retire if they have an outstanding balances. Failure to do so will make the approving/signing authority primary or jointly liable for the amount given as provided under Sections 102 and 104 of P.D. 1445.

9. Dormant and unsupported balances of receivables - ₱1,239,354.51

We recommended that the Municipal Accountant maintain subsidiary ledgers for all the accounts appearing in the financial statements to determine at a given time the details and status of these accounts. Apply the guidelines and procedures prescribed under COA Circular No. 2016-005 dated December 19, 2016 on the write-off of dormant receivable accounts.

10. Continued inability of Management to submit annual physical inventory report rendering Property, Plant and Equipment totaling ₱209,225,709.24 doubtful.

We reiterated our recommendation that the Municipal Mayor create/designate an inventory committee to continue the conduct of annual physical inventory of all

properties belonging to the municipality and the necessary inventory report be prepared and submitted to the accounting office for reconciliation with the accounting records. The same report be furnished to the Auditor for verification.

11. Four (4) parcels of land with book value of ₱7,254,070.00 remained untitled and owner's copy of land title where the municipal building was constructed is missing.

We recommended that Management take appropriate action to have all lands belonging to the Municipality be covered by TCT duly issued by the Land Registration Authority to substantiate its claim for ownership. Further, require the production of the missing title and be turned-over to the Municipal Treasurer for proper custody and safekeeping in the absence of property custodian.

12. Proceeds from sale of five (5) units construction equipment amounting to at least ₱1.31 million was not entered into the coffers of the municipal government, legal remedies for the recovery of the proceeds was not enforced.

We recommended that Management continue the investigation, pinpoint responsibility for the loss of these assets, if any, and hold the concerned person/s accountable for said loss. Moreover, file an appropriate information for malversation of public property to those who perpetrated this transaction, if warranted.

13. Unremitted RPT/SET shares of the Province and Barangays totaling ₱4,254,848.59 and ₱845,913.30, respectively, aside from unreconciled balances of RPT and SET due to the Province in the amount of ₱323,626.94 and ₱406,931.06, respectively, due to absence of subsidiary records to verify the correctness of the accounts.

We recommended that the Municipal Treasurer and the Municipal Accountant effect the immediate remittance of the corresponding RPT shares to the Province and Barangays and update the subsidiary records to facilitate the determination of the unreconciled balances. Effect adjustment, if necessary.

14. Reciprocal accounts Due from Other Funds and Due to Other Funds were not reconciled resulting in the discrepancy of ₱10,053,412.02.

We reiterated our recommendation that the Municipal Accountant:

- a] Prepare a reconciliation report of reciprocal accounts and take up the necessary adjustments in the books of accounts to ensure that all reconciling items are resolved and/or adjusted on a timely basis; and
- b] Perform constant review and appraisal of transactions to deter error and omissions.

Other deficiencies noted in audit are presented in Part II of the report.

E. Summary of Total Audit Suspensions, Disallowances and Charges as of Year-End

Particulars	Notice of Suspension	Notice of Disallowance	Notice of Charge
Beginning Balances, Jan 1, 2016	₱18,501,592.70	₱7,317,617.64	-
Add: Issuances	-	208,617.50	-
Total	₱18,501,592.70	₱7,526,235.14	-
Less : Settlements	-	51,900.00	-
Balances, December 31, 2016	₱18,501,592.70	₱7,474,335.14	-

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

There were nineteen audit recommendations contained in the Calendar Year 2015 Annual Audit Report, one was implemented, eight were partially implemented, leaving ten recommendations not implemented. Some recommendations which were partially or not implemented were reiterated in this report with changes in amounts and subject to existing condition during the year.