

EXECUTIVE SUMMARY

INTRODUCTION

The Municipality of San Isidro was created and separated from the Municipality of Governor Generoso through Republic Act no. 4744 which took effect last June 18, 1966. It is one of the four municipalities located along Davao Gulf area comprising the Second Congressional District of the Province of Davao Oriental with territorial jurisdiction of sixteen (16) barangays.

It is classified as third class from its original Fourth class level last July 29, 2005 under Dept. Order No. 20-05 of the Bureau of Local Government Finance.

The Municipal Government is headed by **Mayor Justina MB. Yu** and **Vice Mayor Romeo H. Ruedas**. They are ably assisted by their respective Division Heads and 10 Sanggunian Bayan members. It has a total personnel complement of 297 of which 12 are elected officials, 73 are regular, 1 co-terminus and 211 job-order employees.

AUDIT METHODOLOGY

The Commission has been implementing the risk-based audit in the conduct of its services. However, to meet the evolving development in public governance and fund management, the results-based approach in audit was incorporated. The integration of these approaches, called the Integrated Results and Risk-Based Audit (IRRBA) Methodology, was applied in the audit of the accounts and operations of the agency.

SCOPE OF AUDIT

A comprehensive audit was conducted on the accounts and operations of the Municipality of San Isidro, Davao Oriental for CY 2016. The audit consisted of review of operating procedures, evaluation of the LGU's programs and projects; interview of the concerned government officials and employees; verification; reconciliation; and analysis of accounts; and such other procedures considered necessary.

FINANCIAL HIGHLIGHTS

The financial condition and results of operation of the Agency as at December 31, 2016 with comparative figures of 2015 are summarized in the next page.

	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>	<u>Percentage</u>
Assets	257,951,640.57	208,582,042.99	49,369,597.58	24%
Liabilities	147,278,287.76	96,620,308.05	50,657,979.71	52%
Equity	110,673,352.81	111,961,734.94	(1,288,382.13)	-1%
Revenue	106,063,494.98	95,424,668.39	10,638,826.59	11%
Expenses	102,799,152.71	75,491,223.61	27,307,929.10	36%
Transfers	5,744,394.31	5,837,355.48	92,961.17	-2%
Surplus	(2,480,052.04)	14,096,089.30	(16,576,141.34)	-118%

AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

The Auditor rendered a qualified opinion on the fairness of presentation of financial statements of the LGU as of December 31, 2016 due to the following:

- The correctness of the reported balances of Investment Property and Property, Plant and Equipment (PPE) with a carrying value of ₱4,921,676.64 and ₱186,787,435.12 as of December 31, 2016 could not be ascertained due to failure of the management to conduct physical count;
- Receivable in an aggregate amount of ₱10,892,963.04 remained dormant for more than two years since less effort was exerted to collect/adjust the same rendering doubts on the reliability and existence of the recorded balances and affecting the fair presentation of accounts in the Financial Statement; and
- Several cash advances amounting to ₱2,969,913.11 remained unliquidated as of year-end resulting to understatement of expenses and overstatement of asset and income accounts.

SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

Summarized below are other significant findings together with their corresponding recommendations for the calendar year 2016:

- 1. Proper safeguard was not certain due to absence of sound internal control procedures in the releases of Municipal Aid totalled ₱50,000.00 to its component barangay because of lack of supporting documents and made without requiring liquidation of prior releases hence may expose the fund to risks of loss and misuse.**

We recommended that the Municipal Accountant should comply with the documentary requirements provided under Sec. 3 of COA Circular No. 2012-001 to ensure the propriety and validity of the transaction and to record fund transfers to barangay under the account code 1-03-03-030 – Due from Local Government Units to ensure proper monitoring of fund releases.

We further recommended to enforce liquidation of the fund transferred to this barangay to ensure that this was utilized for the intended projects.

- 2. Disbursements in an aggregate amount of ₱11,158,162.79 were not included as a priority programs, projects and activities (PPA's) in the Annual Investment Program prepared at the beginning of the year casting doubts on the accuracy and validity of the reported accomplishments for the year.**

We recommended to the Local Development Council (LDC) that priority should be given in the implementation of development projects, programs and activities identified or included in Annual Investment Program.

- 3. Liquidated damages estimated at ₱4,341,713.04 for late deliveries of four units brand new heavy equipment was not imposed since payment to the supplier was made directly by the bank through Letters of Credit and no information was received by the Accountant on the said transaction thereby, depriving the Municipality of additional source of fund.**

We recommended to the management the following courses of actions:

- Enforce collection of the liquidated damages from the supplier if no document to prove the extensions of delivery dates
- Submit written justification/explanation on the following:
 - a. deficiencies noted on the documents related to extension of deliveries;
 - b. why the Municipality continuously granted extensions?
 - c. despite the BAC resolution's recommendation on the imposition of liquidated damages, why were there no effort exerted to collect such?

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

The reported audit suspensions, disallowances and charges of the Municipality of San Isidro as of December 31, 2016 were as follows:

	Beginning Balance Jan. 1, 2016	This Period			Ending Balance Dec. 31, 2016
		Jan. 1, 2016 to Dec. 31, 2016			
		NS/ND/NC	NSSDC	NFD	
Notice of Suspension	227,778.74	-	-	-	227,778.74
Notice of Disallowance	-	-	-	-	-
Notice of Charges	-	-	-	-	-
Notice of Finality of Decision	1,139,500.00	-	-	-	1,139,500.00
Total	1,367,278.74	-	-	-	1,367,278.74

**STATEMENT ON THE IMPLEMENTATION OF PRIOR YEARS' AUDIT
RECOMMENDATIONS**

Of the thirty (30) audit recommendations, in last year's Annual Audit Report, four (4) were fully implemented, two (2) were not implemented and twenty-four (24) were partially implemented as discussed in Part III of this report.