

EXECUTIVE SUMMARY

A. INTRODUCTION

Located along the western coast of Northern Luzon, the municipality of Santiago lies between 17 ° 15° to 20° north and 120 ° 15° to 30° east. The basis of its existence was under the MAURA LAW. The municipality was founded in the year 1803, now in its 200 years of existence.

The Municipality of Santiago is a fourth class Municipality envisioned to have a progressive eco-tourism destination sustained by committed leaders in partnership with God-loving and empowered citizenry. It has a mission to: (1) Develop and promote eco-tourism; (2) Preserve and protect coastal and forest resources; (3) Increase agricultural productivity; (4) Deliver quality services to the people; and (5) Sustain linkages with other stakeholders.

The Municipality is under the leadership of elected Municipal Mayor, Hon. Josefino E. Miranda, who is assisted by eleven able elected officials. The Municipality has also support personnel consisting of 44 permanent employees, 24 casuals and 5 job orders.

A comprehensive audit was conducted on the accounts and operations of the Municipality of Santiago for calendar year 2018. Our audit was aimed at determining whether financial statements were presented in accordance with Philippine Public Sector Accounting Standards, whether the resources of the Municipality were utilized in conformity with applicable laws and regulations and to assess or determine whether the resources of the Municipality were disbursed or utilized economically, effectively and efficiently. The audit consisted of the review of operating procedures, inspection and validation of programs and projects, interview of concerned Municipal officials and employees, verification, reconciliation and analysis of accounts and such other procedures deemed necessary under the circumstances.

B. FINANCIAL HIGHLIGHTS

The total assets, liabilities, government equity, income and expenses as compared to previous year are as follows:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
Assets	997,597,635.81	465,745,325.00	531,852,310.81	114.19%
Liabilities	52,848,027.24	47,348,146.41	5,499,880.83	11.62%
Government Equity	944,749,608.57	418,397,178.59	526,352,429.98	125.80%
Income	596,757,062.31	66,200,711.58	530,556,350.73	801.44%
Expenses	77,265,663.89	64,465,125.63	12,800,538.26	19.86%

C. OPERATIONAL HIGHLIGHTS

The total appropriations, allotments and obligations for the year as compared to previous year are as follows:

<u>Particulars</u>	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
Appropriations	602,547,806.70	252,401,042.90	350,146,763.80	138.73%
Allotments	602,547,806.70	252,401,042.90	350,146,763.80	138.73%
Obligations	389,411,841.47	223,823,495.19	165,588,346.28	73.98%

The following are the major programs/projects of the Municipality of Santiago and the corresponding accomplishments for CY 2018 compared to CY 2017:

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>	<u>Percentage</u>
I. 20% Development Fund				
Target	13,091,133.80	12,206,970.40	884,163.40	7.24%
Accomplishment	7,302,764.32	8,642,625.60	(1,339,861.28)	(15.50%)
II. RA 7171 Funds				
Target	532,142,071.46	166,411,582.16	365,730,489.30	219.77%
Accomplishment	337,293,820.12	149,438,776.00	187,855,044.12	125.71%
III.LDRRM Fund				
Target	3,442,783.45	3,205,242.60	237,540.85	7.41%
Accomplishment	1,696,687.68	983,210.45	713,477.23	72.57%

D. STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements due to the following reasons: 1). The existence, correctness, ownership and serviceability of the recorded Property, Plant and Equipment (PPE) of the municipality excluding Land with total gross amount of P774,245,259.76 in the books of accounts as of December 31, 2018 and the related Depreciation Expenses and Accumulated Depreciation are doubtful due to various deficiencies uncovered in audit; 2). The municipality was not able to record back in the books of accounts at least 75% of the Public Infrastructures from the registries to their appropriate accounts of the Property, Plant and Equipment (PPE) which is equivalent to P68,871,165.96, contrary to Section 3.7 of COA Circular No. 2016-004 and Item IV of COA Circular No. 2015-008 thereby resulting in the understatement of both PPE and Government Equity accounts by the same amount. Moreover, the registries of Public Infrastructures and other necessary records were not maintained by the Accounting Section, however, Public Infrastructures in the amount of P80,417,187.46 were recorded back to the appropriate PPE accounts during the previous years; hence the validity of these accounts could not be ascertained; 3). The inability of management to ensure strict compliance with the program of works of most of the inspected infrastructure projects funded out of the share of the municipality from tobacco excise tax under RA 7171 resulted in the issuance of disallowances aggregating

P6,778,381.06 due to under an and inclusion of unnecessary pay items. This also caused understatement of Cash by P6,778,3831.06 and overstatement of Property, Plant and Equipment (PPE) and Due to BIR by P7,229,317.32 and P450,936.26 respectively. Moreover, the tobacco farmers were denied of the best quality and correct volume of items of works of infrastructure projects being paid with the right price from their own sweat, and 4). Check disbursements aggregating P127,522,394.63 were not submitted for post audit despite the issuance of Audit Observation Memorandum and Notices of Suspension requiring submission thereby casting doubts on the validity, legality and propriety of the transactions. Moreover, the non/delayed submission of the 2018 accounts and quarterly trial balances and monthly bank reconciliation statements precluded timely auditorial review and prompt detection/correction of possible deficiencies and caused delay in the preparation of the Annual Audit Report.

E. SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

For Calendar Year 2018, some favorable observations were noted and these are as follows:

1. The Municipality was one of the recipients of 2017 Seal of Local Good Governance given by the Department of Interior and Local Government.
2. The Municipality is religiously withholding and remitting taxes to the Bureau of Internal Revenue in compliance with Revenue Memorandum Circular No. 23-007, thus strengthening state coffers and helping finance the government's development programs and projects.
3. The Municipality is consistently 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.
4. The Municipal Government is constantly deducting the Pag-ibig and Philhealth contributions from the salaries of municipal officials and employees and remitting the same on time and intact together with the corresponding government contributions, and
5. There are no material adverse findings on the utilization of Local Disaster Risk Reduction Management Fund.

Summarized below are the other significant observations and recommendations which were discussed with management in an exit conference:

1. The Municipal Accountant was not able to effect on time the lower amount of withholding tax on compensation of municipal officials and employees brought

about by the TRAIN law resulting in the over withholding of taxes aggregating P570,871.34 which were refunded by Debiting Due to BIR thereby causing the negative balance of said account in the amount of P486,637.80. Moreover, the payees were denied of the early higher amount of take home pay due them.

Likewise, the tax refunds were not supported with computation which precluded the Audit Team from determining the correctness of the same resulting to suspension in audit.

We recommended that the Municipal Accountant justify the above lapses. Succeeding lower deduction of withholding tax from the salaries of officials and employees should be effected on time. Likewise, cause for the submission of computation on the tax refunds made to officials and employees which were suspended in audit.

2. Purchases of cell cards for use of municipal officials and employees and goods distributed to constituents aggregating P557,340.00 and P5,896,063.95 respectively, were not supported with the necessary documents to include the certified list of recipients; hence, the validity, propriety and reasonableness of these expenditures could not be ascertained which resulted to suspension in audit.

We recommended that management justify the abovementioned lapses. The Municipal Mayor should require the Municipal Accountant to submit the required documents embodied in the Notices of Suspensions on the purchases of cell cards and goods distributed to constituents. Henceforth, the Municipal Accountant should see to it that disbursements of this nature are completely documented to include the certified list of recipients/Distribution List indicating among others the quantity, complete specifications and exact unit of measure of items distributed and the signature and address of beneficiaries/end users.

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

	Beg. Balance (As of December 31, 2017)	This period January 1 to December 31, 2018		Ending Balance (As of December 31, 2018)
		NS/ND/NC	NSSDC	
Notice of Suspension	44,525,636.12	25,885,030.92	11,844,984.37	58,565,682.67
Notice of Disallowance	418,982.00	31,778.00	368,282.00	82,478.00
Notice of Charge	0.00	0.00	0.00	0.00
Total	44,944,618.12	25,916,808.92	12,213,266.37	58,648,160.67

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

Of the twenty two (22) prior year's recommendations contained in the CY 2017 Annual Audit Report, seven (7) or 31.82% were fully implemented, another seven (7) or 31.82% were partially implemented and the remaining eight (8) or 36.36% were not implemented.