

EXECUTIVE SUMMARY

A. Introduction

Valenzuela was named after Pío Valenzuela, a doctor and a member of the Katipunan. The city, originally called Polo, was initially formed in 1621 and formalized two years later after separation from Meycauayan. The infamous Battle of Malinta of the Philippine –American War was fought in Polo in 1899. In 1960, President Carlos P. Garcia ordered the split of Polo's southern barangays to form an earlier town Valenzuela. On February 14, 1998, Valenzuela became a City by virtue of Republic Act (RA) No. 8526 signed by then President Fidel V. Ramos duly ratified by the people on December 30, 1998 through a plebiscite, making it the 12th City in Metropolitan Manila and the 83rd City of the Republic of the Philippines.

The City has a total personnel complement of 12,447 as of December 31, 2019 broken down as follows:

Permanent Employees	-	509	Consultants	-	109
Casual Employees	-	1,769	Part-time Instructors	-	314
Contractual Employees	-	4,172	Honorarium Based	-	5,256
Elective Officials	-	16	Coordinator	-	245
Co-terminus	-	57			

B. Scope and Objectives of Audit

The audit covered the accounts and operations of the City of Valenzuela for the period January to December 31, 2019. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI) to (a) verify the level of reliance that may be placed on management's assertions on the financial statements; (b) determine the extent of compliance with applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) ascertain the extent of implementation of prior year's audit recommendations.

C. Financial Highlights

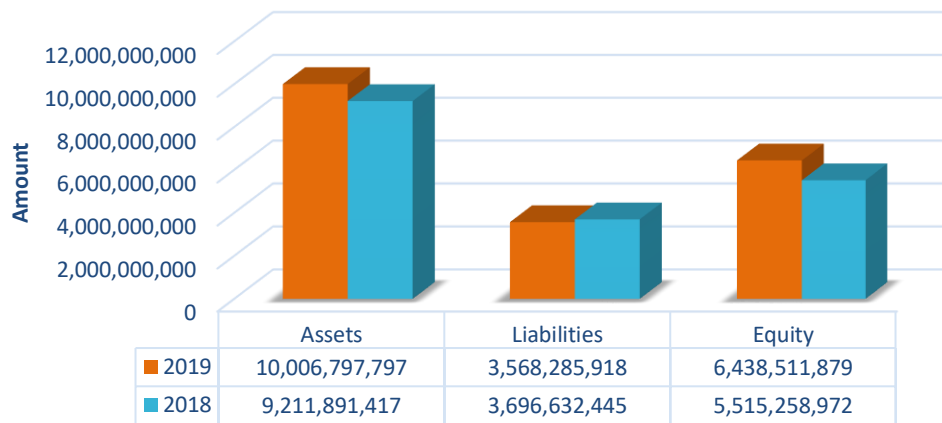
Financial Condition/Result of Operations

The balances of the total assets, liabilities, equity, income and expenses in calendar years (CYs) 2019 and 2018 are shown as follows:

	2019	2018 (As Restated)	Increase (Decrease)
Assets	P 10,006,797,797	P 9,211,891,417	P 794,906,380
Liabilities	3,568,285,918	3,696,632,445	(128,346,527)
Equity	6,438,511,879	5,515,258,972	923,252,907
Income	4,617,597,984	4,181,469,369	436,128,615
Expenses	P 3,801,985,860	P 3,745,935,359	P 56,050,501

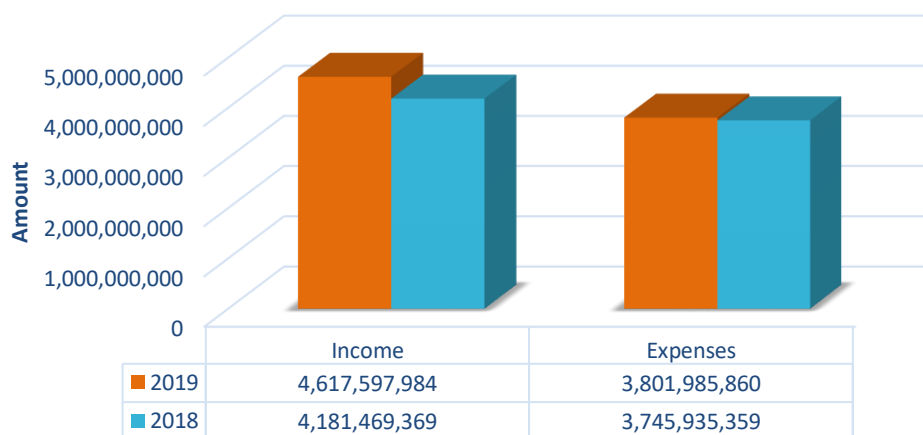
The financial position showed an increase in total assets and equity by P794.906 million and P923.253 million, respectively; while the liabilities have decreased by P128.347 million in CY 2019.

FINANCIAL POSITION



The financial performance showed an increase for total income and expenses by P436.129 million and P56.051 million, respectively.

FINANCIAL PERFORMANCE

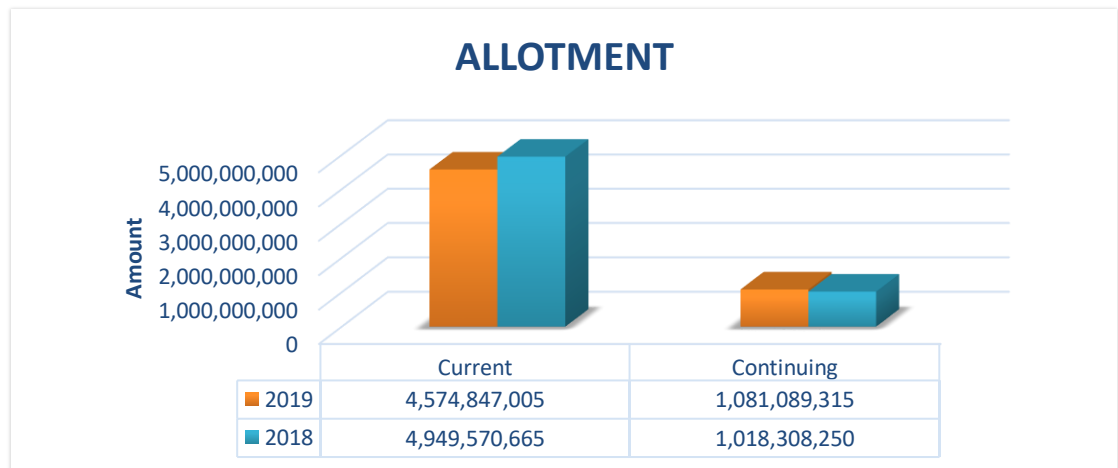
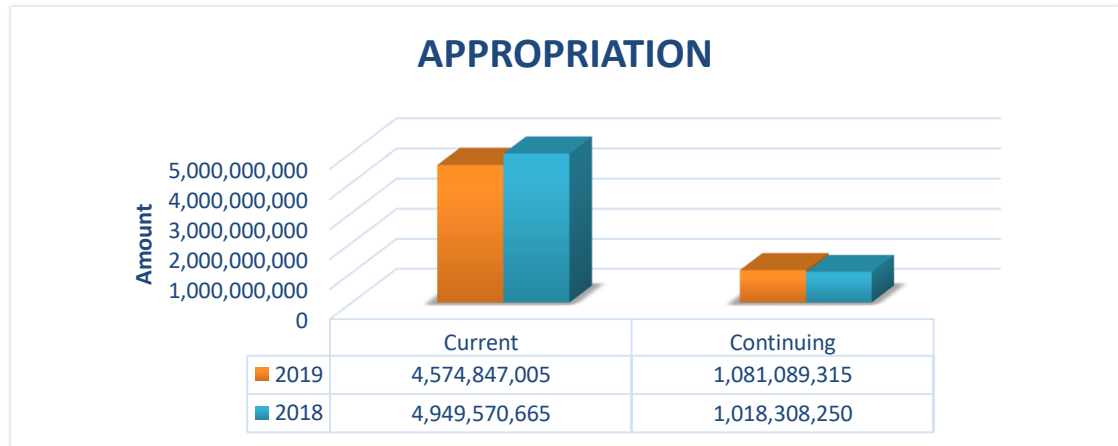


Appropriation/Obligation

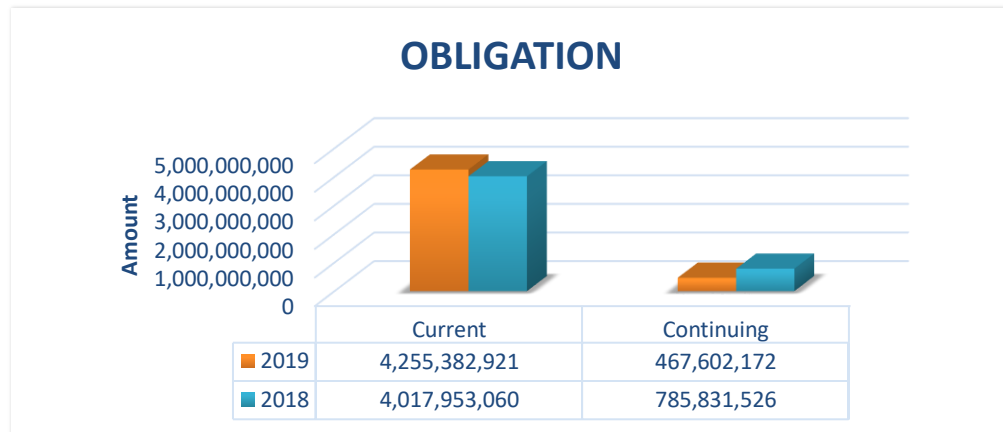
The balances of appropriation, allotment and obligation in CYs 2019 and 2018 are shown as follows:

	2019	2018	Increase (Decrease)
Appropriation			
Current	P 4,574,847,005	P 4,949,570,665	P (374,723,660)
Continuing	1,081,089,315	1,018,308,250	62,781,065
Allotment			
Current	4,574,847,005	4,949,570,665	(374,723,660)
Continuing	1,081,089,315	1,018,308,250	62,781,065
Obligation			
Current	4,255,382,921	4,017,953,060	237,429,861
Continuing	P 467,602,172	P 785,831,526	P (318,229,354)

The City's current and continuing appropriations have decreased and increased by 7.57 percent, and 6.17 percent, respectively, during the year.



The City's current and continuing obligations have increased and decreased by 5.91 percent, and 40.50 percent, respectively, during the year.



D. Operational Highlights

Significant accomplishments

The City reported in its Annual Accomplishment Report, 38 completed infrastructure projects and 28 on-going projects with total disbursements for the year amounting to P278,352,871.00. These include among others, roads and drainage improvements in various barangays, construction and improvement of buildings/schools/daycare centers, public cemetery and parks, construction/site development of 3S Centers, improvement of in-city drug rehabilitation facility, DRRM training facility and animal impounding facility.

Moreover, the City's Social Welfare and Development Office and City Health Office with the assistance of the national government agencies had provided essential services, among them are as follows:

- Financial assistance to solo parents
- Home care to elderly women
- Educational assistance to indigent students
- Provision of Day Care facilities
- Medical and dental missions
- Immunization programs for the infants
- Burial and livelihood Assistance
- Drug Rehabilitation and Aftercare Programs for recovering drug dependents

The above basic services have alleviated poverty and provided comfort/assistance to indigents and underprivileged citizens of the City.

Awards received among others, during the year

- 2019 Most Business-Friendly Highly Urbanized City awarded at the 45th Philippine Business Conference and Expo (PBC&E) - Philippine Chamber of Commerce and Industry.
- Top 1, *Bahay ng Pag-asa ng Valenzuela* - Proactive LGU in the Implementation of the Juvenile Justice and Welfare Act of 2006
- 1st Place, Local Peace and Order Council Performance Audit 2018 (Mark Of Distinction) awarded by the Department Of The Interior And Local Government (DILG) on CY 2019
- “*Gabi ng Parangal 2019,*” Best in Local Health Systems Development, TB Control Program, Supply Chain Management and Dengue Prevention and Control Program. Department of Health (DOH) - Metro Manila Center for Health Development
- 1st Path-finding City in the World to end Violence against Children - The Global Partnership to End Violence Against Children (GPEVAC)

E. Auditor’s Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements due to the following:

1. Reconciling items pertaining to previous and current years totaling P32.442 million were not recorded contrary to Section 3.3 of COA Circular No. 96-011 which resulted in the net overstatement of Cash in Bank – Local Currency Current Account (LCCA) by P2.085 million and the understatement/ overstatement of related accounts. Moreover, failure to conduct the quarterly reconciliation of the cash in bank balance per general ledger and the treasurer’s cashbooks resulted in an unreconciled balance of P25.036 million, which is not in alignment with the provisions of Section 181 (c) of the Government Accounting and Auditing Manual (GAAM), Volume I.

We recommended and Management agreed that:

- a. The City Mayor/City Administrator make representations with the bank officials to enforce the submission of all bank DM/CMs in previous and current years to facilitate the recording of related bank transactions in the books of accounts. Likewise, require the bank officials to always attach the bank DM/CMs on the Monthly Bank Statement upon submission to the Office of the City Treasurer/Accountant. Otherwise, we advise that management employ alternative options to resolve this matter to the extent of transferring City’s funds to another AGDB;

- b. The City Accountant and City Treasurer to-
 - Immediately check the completeness of DM/CMs attached to the bank statements, inform the concerned bank of any missing DM/CMs;
 - Record related bank transactions in their respective books of accounts upon receipt of bank DM/CMs; and
 - Conduct immediate reconciliation of cash in bank balance per GL and Cashbooks to identify the unrecorded transactions for immediate adjustments in their respective books of accounts. Henceforth, conduct periodic reconciliation to ensure the correctness and completeness of the recorded transactions both in the GL and Cashbooks.
2. Agency assets and public infrastructures completed in CY 2019 with total contract costs of P406.789 million were still recorded/reported under Construction in Progress (CIP), contrary to Section 50 Volume 1 of the Manual on New Government Accounting Standards (MNGAS) for Local Government Units (LGUs) and International Public Sector Accounting Standard (IPSAS) 17 resulting in the (a) understatement of assets by P276.291 million; (b) understatement of liability by P285.978 million; and (c) understatement of expense and overstatement of government equity by P9.686 million.

We recommended and Management agreed that:

- a. The City Accountant effect all necessary adjusting entries in the books of accounts to (a) reclassify all completed infrastructure projects still recorded under CIP accounts, including those without payment yet, to their appropriate PPE accounts; (b) compute the corresponding depreciation expense and accumulated depreciation for all completed projects as of December 31, 2019; (c) set-up the liability account for the unpaid costs of completed projects; and (d) adjust the government equity account for the unrecorded accumulated depreciation at year-end; and
 - b. The City Engineer submit to the City Accountant the list of completed infrastructure projects on monthly basis to serve as supporting documents for the latter to effect adjustment/ reclassification of CIP items to the appropriate PPE accounts.
3. The existence, validity and correctness of the Property Plant and Equipment (PPE) accounts with an aggregate balance of P10.595 billion could not be ascertained due to (a) unreconciled balance of PPEs between the accounting and Inventory Report in the amount of P171.770 million; (b) incomplete/absence of physical inventory for public infrastructure amounting to P19.681 million; (c) unverified details of property acquired in CY 2014 and earlier totaling P3.518 billion; and (d) non-maintenance of complete set of ledger cards for PPE.

We reiterated our previous year's recommendations that:

- a. The City Accounting Office (CAO) and the Property and Supply Management Division (PSMD) continuously coordinate on the details of the PPE accounts/balances reflected in their respective records/reports to facilitate the reconciliation of the same and to submit the reconciliation report to the Office of the City Auditor, for review and verification. Also, the PSMD to request from the City Engineering Office the quarterly reports on government projects/programs/activities (PPAs) for the purpose of recognizing the completed PPAs in a timely manner;
 - b. The CAO to -
 - Analyze the discrepancies noted between the physical count and the recorded balances of the PPE accounts to reconcile the records of their Office with that of the PSMD; and
 - Maintain and update the PPELC, RPLC and CIPLC with complete details, and use a common reference number with the Property Cards and LRNPC kept by the PSMD.
4. Inappropriate accounting treatment of borrowing costs eligible for capitalization contrary to IPSAS 5 resulted in the understatement of related PPE accounts by P2.530 million and overstatement of Interest Expense account by the same amount for CY 2019. Moreover, capitalizable interest which should have been part of historical costs of qualifying assets completed in CYs 2015 to 2018 could not be determined due to incomplete records.

We recommended and Management agreed that the City Accountant and the City Treasurer exert concerted efforts to account for all payments of interests on bank loans totaling P1,046,824,609.21 secured by the City in CY 2015 and onwards for construction of various qualifying assets. Thereafter, the City Accountant is advised to effect immediate adjustment to capitalize the determined interests as part of the depreciable cost of qualifying assets and recompute the accumulated depreciation for fair presentation in the financial statements.

Further, the City Accountant is enjoined to adopt the accrual basis of recording the interests on bank loans to comply with the underlying principle of recording all transactions and events in the financial statements of the periods to which they relate.

F. Summary of Significant Audit Observations and Recommendations

1. The setting-up of Real Property Tax (RPT) and Special Education Tax (SET) Receivables is not based on a duly certified list showing the name of taxpayers and the amount due and collectible for the current year as required under Section 20 Volume 1 of the Manual on the New Government Accounting System (MNGAS) for LGUs, resulting in inaccurate balances of the accounts.

We reiterated our recommendations and Management agreed that:

- a. The City Accountant-

- Ensure the setting up of RPT and SET Receivables at the beginning of the year supported with a certified list from the City Treasurer showing the taxpayers' names and amounts due;
- Establish the beginning RPT/SET Receivables based on Taxpayer's index card as prescribed under Section 20 Volume 1 of the MNGAS for LGUs; and
- Stop the practice of closing the current year's balance of RPT/SET Receivable to prior years' balance at year-end, instead, the closing/adjusting entry should be done at the beginning of the next calendar year.

- b. The City Treasurer provided the City Accountant a duly certified list of taxpayers showing the name and the amount due and collectible for the current year as basis in setting up the beginning balance of RPT and SET Receivables, respectively.

- c. The Local Chief Executive direct the City Assessor, City Treasurer, City Accountant and Information and Communication Technology Office (ICTO) Head to collaborate efforts in generating accurate/reliable data on RPT and SET receivable balances by indicating the names of taxpayers and amounts due from them, including penalties therefrom.

2. Appropriations amounting to P33.621 million for the payment of prior year's obligations were charged against the CY 2019 budget in violation of Section 85 (1) of PD No. 1445, and accrued expenses of P54.933 million for CY 2019 were not recorded, contrary to IPSAS 3 resulting in the understatement of liability and government equity account both by P54.933 million as of December 31, 2019.

We recommended that:

- a. The Budget Officer ensure adequacy of appropriations for all expenses incurred by the City, including those expenses incurred which remained unpaid as of year-end. Initiate appropriate actions to re-align or supplement existing fund, if necessary, to avoid overdraft in appropriations.
 - b. The City Accountant prepare the journal entries to record all transactions incurred in the current accounting period prior to the finalization of the financial statements, in alignment with the matching principle;
 - c. The OIC - General Services Officer immediately furnish the Office of the City Auditor (OCA) a copy of Inspection and Acceptance Report (IAR) within 24 hours after acceptance of all consumable deliveries and/or soon after the inspection and acceptance by the City personnel concerned; and
 - d. The Procurement Officer ensure that there is actual canvass of prices from at least three bona fide suppliers to warrant validity of transactions.
3. No provisions were recorded or disclosed in the Notes to Financial Statements on the four expropriation cases decided with finality by the Supreme Court mandated the City to pay just compensation and interest totaling P401.928 million contrary to the requirements of Sections 22 and 98 of IPSAS 19.

We recommended and the Management agreed that:

- a. The Local Chief Executive and the Local Finance Committee coordinate with the City Council for the purpose of formulating strategies to resolve the incurrence of liabilities arising from unpaid just compensation and interest on the four expropriated real estate properties totaling P401,928,272.08 million as of December 31, 2019;
- b. The City Treasurer intensify the collection of local taxes and identify other potential sources of income to boost their collection efficiency for more funding sources; and
- c. The City Accountant record the provision for just compensation obligations including interests thereon amounting to P401,928,272.08 in the books of accounts and present the facts in the Notes to Financial Statement.

Henceforth, the Management is advised to defer from expropriating property until such time that the City is capable to settle its existing just compensation obligations.

The aforementioned observations together with the corresponding recommendations were communicated with Management officials concerned through Audit Observation Memoranda. Management views and comments on the audit observations were incorporated in the report, where appropriate.

G. Status of Unsettled Suspensions, Disallowances and Charges

As of December 31, 2019, the Statement of Audit Suspensions, Disallowances and Charges (SASDC) showed a balance of P78,407,596.65 consisting of unsettled suspensions, disallowances and charges amounting to P7,008,600.87, P14,287,546.40, and P57,111,449.38 respectively.

H. Status of Implementation of Prior Years' Audit Recommendations

Of the 87 audit recommendations contained in the Annual Audit Reports for CYs 2015 to 2018, 43 or 49 percent were fully implemented, 37 or 43 percent were partially implemented and seven or eight percent were not implemented.