

## EXECUTIVE SUMMARY

### A. INTRODUCTION

Laoag became the first parish and first town in the northern portion of the old Ilocos, comprising of Ilocos Norte, Ilocos Sur and La Union in 1585. Through the enactment of Republic Act No. 4584 on June 19, 1965, the municipality of Laoag was created as a City. It has a total land area of 12,747.35 hectares with 356.473 kilometers of road network. It is composed of 30 urban barangays and 50 rural barangays.

The City of Laoag is envisioned to be a Metropolitan Center in the north where economic growth and development abound for its people to equitably share and enjoy by year 2022.

As of December 31, 2019, it has a total work force of 1,168 employees, comprising of 14 elective officials, 692 permanent, 9 co-terminus, 402 contract of service, 27 contractual, and 24 casuals.

### B. FINANCIAL HIGHLIGHTS

Presented below are the comparative data on the Financial Position, Financial Performance and Sources and Application of Funds for CYs 2019 and 2018:

Particulars	2019	2018	Increase (Decrease)	
			Amount	%
<b>Financial Condition</b>				
Assets	2,128,931,142.42	1,801,603,944.08	327,327,198.34	15.38
Liabilities	735,729,756.61	646,086,416.79	89,643,339.82	12.18
Equity	1,393,201,385.81	1,155,517,527.29	237,683,858.52	17.06
<b>Financial Performance</b>				
Gross Income	938,341,346.02	942,081,295.63	(3,739,949.61)	-0.40
Expenses	830,773,689.26	759,627,117.07	71,146,572.19	8.56
Net Income	107,567,656.76	182,454,178.56	(74,886,521.80)	-69.62
<b>Sources and Application of Funds</b>				
Current Legislative Appropriations:				
Allotments	798,048,765.43	987,442,616.79	(189,393,851.36)	-23.73
Obligations	640,904,961.52	744,504,353.19	(103,599,391.67)	-16.16
Balance	157,143,803.91	242,938,263.60	(85,794,459.69)	-54.60
<b>Continuing Appropriations:</b>				
Allotments	122,044,575.45	101,251,245.94	20,793,329.51	-23.73
Obligations	80,154,638.10	17,681,198.43	62,473,439.67	-16.16
Balance	41,889,937.35	83,570,047.51	(41,680,110.16)	-54.60

### C. OPERATIONAL HIGHLIGHTS

The following major accomplishments of the City for the year were the following:

<b>Programs/Projects/Activities</b>	<b>Expenditure</b>	<b>% of Completion</b>
Desilting/Widening of Mini Water Impounding	₱ 14,841,931.00	100
Rehabilitation and Greening of Aurora Park, Gilbert Bridge Approach and Centennial Park	6,889,986.00	100
Rehabilitation of Small Water Impounding (Zanjera-Matoc)	2,843,500.00	100

In addition, the City implemented various infrastructure projects for concreting of pavement and construction/rehabilitation of drainage and slope protection in line with its thrust to hasten socio-economic development. These projects cost an aggregate of ₱24,385,161.32.

### D. STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Auditor rendered a qualified opinion on the presentation of the financial statements of the City of Laoag as of December 31, 2019 because Property, Plant and Equipment with carrying amount of ₱19,820,481.54 under the Special Education Fund of the City included items that do not meet the recognition criteria under the International Public Sector Accounting Standards No. 1 and 17, hence the financial statements were not fairly presented; Recognition of Road Networks as Property, Plant and Equipment was undertaken without adhering to the guidelines set forth in COA Circular No. 2015-008 to assure fair presentation of the account Road Networks in the financial statement, thus the said account with carrying amount of ₱246,832,373.47 was unreliable; Due from NGAs-Philhealth Claims amounting to ₱34,739,453.05 was not supported with complete subsidiary ledgers as required in Sections 111(1) and 114(2) of PD 1445, thus, the validity, reliability and accuracy of the reported balances as of December 31, 2019 was doubtful; Accounts Receivable and Other Receivables under the General Fund totaling ₱20,173,908.11 were of doubtful validity and collectability and no provision of allowance for impairment was reflected, hence the financial statements were not fairly presented; and Medical, Dental and Laboratory Supplies Expenses amounting to ₱19,780,735.47 for consumption of medical and laboratory supplies was not appropriately recorded in accordance with COA Circular 2015-009 resulting in misstatements in the financial statements of the agency.

### E. SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

We commend the Management for the following favorable observations noted, to wit:

1. Utilization of the 20% Development Fund had increased from 64% last year to 88.03% this year, showing Management's effort to optimize the fund for better delivery of socio-economic development and environmental management projects.
2. The City Government has ensured that its programs implemented from the Gender and Development Fund is in line with the priority of the province and the mandates of the GAD Code by using the Guide on the Review and Endorsement of LGUs' GAD Plan and Budget and Review of LGUs' GAD Accomplishment Report issued by the DILG and Bureau of Local Government Development. GAD PPAs implemented for the year were adequately funded, planned and accomplished, forging the City Government's standing as a champion of gender equality.
3. The City Government's remittances to GSIS, Pag-IBIG, and BIR were made correctly and on time, in accordance with the Government Service Insurance Act of 1997, the Home Development Mutual Fund Law of 2009, and the National Internal Revenue Code, as amended by RA 10963.

However, some aspects that need to be corrected or improved are enumerated in the herein audit observations with the corresponding recommendations as follows:

1. Property, Plant and Equipment with carrying amount of ₱19,820,481.54 under the Special Education Fund of the City included items that do not meet the recognition criteria under the International Public Sector Accounting Standards (IPSAS) No. 1 and 17, hence the financial statements were not fairly presented.

We recommended that Management consider carefully the nature of transactions entered into and the relative implications of such transactions. Examination of the City Government's ownership or control over assets turned over to schools and other entities should be made in order to gauge the proper treatment of those assets. If Management should determine that it does not have effective ownership over the assets, the GSO and the Accountant should drop them from the books for more accurate inventory reports and financial statements. In implementing the foregoing, coordination should be done with the Department of Education for them to appropriately record and monitor the transfer. Thereafter, the GSO should issue an invoice and receipt for transfer of property instead of PAR or execute a deed of donation where appropriate, while the Accountant should record the transaction as a donation.

2. Recognition of Road Networks as Property, Plant and Equipment was undertaken without adhering to the guidelines set forth in COA Circular No. 2015-008 to assure fair presentation of the account Road Networks in the financial statement, thus the said account with carrying amount of ₱246,832,373.47 was unreliable.

We reiterated our recommendation that Management follow the accounting and reporting guidelines in the recognition of the various components of the Road Network in order to ensure that the same is properly identified, valued and

accounted for in the books. The City Mayor should enjoin the department heads' compliance with the circular, particularly the City Accountant, General Services Officer and City Engineer.

3. Due from NGAs-Philhealth Claims amounting to ₱34,739,453.05 was not supported with complete subsidiary ledgers as required in Sections 111(1) and 114(2) of PD 1445, thus, the validity, reliability and accuracy of the reported balances as of December 31, 2019 was doubtful.

We recommended that Management require the maintenance of complete subsidiary ledgers for the account Due from NGAs-PhilHealth claims and regularly update the same. Ensure that all claims from PhilHealth are correctly computed, completely supported and filed on time to avoid losses on the part of the enterprise for its non-collection.

4. Accounts Receivable and Other Receivables under the General Fund totaling ₱20,173,908.11 were not subjected to periodic verification, analysis and validation as required under COA Circular 2016-005, hence the validity and collectability of the receivables accounts was doubtful. Likewise, no provision of allowance for impairment was made to reflect the amounts estimated to be uncollectible in accordance to the IPSAS, hence the financial statements were not fairly presented.

We recommended that Management assess the conditions of its Accounts Receivable and Other Receivables, prepare an accurate aging of receivables and set-up allowance for impairment, if necessary, to reflect the actual net realizable value.

#### **F. SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF DECEMBER 31, 2019**

<b>Particulars</b>	<b>Suspensions</b>	<b>Disallowances</b>	<b>Charges</b>
Balance, Dec. 31, 2018	₱ 11,955,786.23	₱ 3,406,720.24	₱ 0.00
Issued	1,158,672.44	10,838,026.55	0.00
Settled	798,251.00	1,089,810.63	0.00
Balance, Dec. 31, 2019	<u>₱ 12,316,207.67</u>	<u>₱13,154,936.16</u>	<u>₱ 0.00</u>

#### **G. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

Of the 80 audit recommendations contained in Part II of CY 2018 Annual Audit Report, 39 were fully implemented, 27 were partially implemented and 14 were not implemented, of which six (6) were reiterated in this report. For the remaining prior years' audit recommendations embodied in 2014-2017 Annual Audit Report, seven (7) were fully implemented, 17 were partially implemented and 18 remained not implemented.