

## EXECUTIVE SUMMARY

### Introduction

The historic beginnings of Balayan back to early 11th to 13th century, as chronicled by Chinese historic accounts was a trading port as what they termed the “South Seas” of the barbarians, where Malays, Mongolians and Australians transported their goods for barter with products of the natives. In 1578, the town Balayan was officially recognized as a Municipality under Spain by Fr. Esteban Ortiz and Fr. Juan de Porras covering the areas now called the towns of Nasugbu, Lian, Calaca and Calatagan. It became the first Capital of the Province known then as Kumintang and considered as the oldest town in the western region of Batangas.

The Municipality of Balayan is a first class Municipality in the Province of Batangas with a total land area of 10,873 hectares, which was politically subdivided into 48 barangays.

The Municipal Government of Balayan maintains books for the General Fund, Special Education Fund and Trust Fund. It operates market, cemetery and slaughterhouse as its economic enterprises.

Among others, the following are the notable recognitions and awards conferred to the Municipality during the year:

- 2<sup>nd</sup> Most Prompt and Accurate Municipality for CY 2019 (Submission of reports) by the Provincial Assessor’s Office (Assessor)
- 2019 Good Financial Housekeeping Passer
- 2019 Child-Friendly Local Governance Audit
- 95% compliance rate as DILG has mandated LGUs road clearing (to clear all of the obstruction in the public roads)

The organizational structure of the Municipal Government of Balayan is as follows:

a. Key Officials

Municipal Mayor	Emmanuel Salvador P. Fronda II
Municipal Vice Mayor	Francisco S. Ramos
Members of the Sanggunian	Vitaliano B. Santos, Jr. Elmer V. Del Carmen Raymond Nonnatus I. Dela Vega Marlon P. Martinez John Albert I. Mapalad Benjamin Tobob De Sagun Garcia-Ascue X Carlos E. Alvarez Bernardo C. Pantoja Julian B. De Roxas (ABC President) Christian R. Lopez (SK Federation President)

Municipal Accountant	Edna B. Baculi
Municipal Treasurer	Manuela DJ. Salazar

b. Number of Personnel Complement

Permanent	219
Elective Officials	12
Coterminous	8
Temporary	6
Casual	81
Job Order	<u>359</u>
Total	<u>685</u>

**Scope of Audit**

Financial and compliance audits were conducted on the accounts and operations of the Municipal Government of Balayan for CY 2019. The audit was conducted to ascertain the adequacy and reliability of the books of accounts and financial reports, fairness of the presentation of the financial statements and the Municipality's compliance with applicable laws, rules and regulations as well as adherence to prescribed policies in handling its finances and its operations in general.

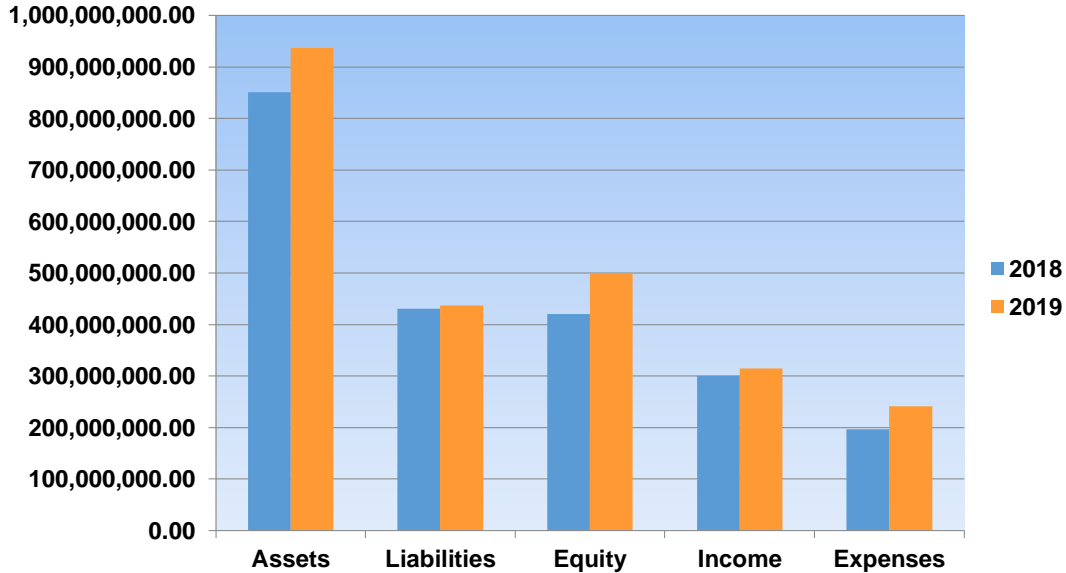
**Financial Highlights (in Totals)**

For the Calendar Year (CY) 2019, the Municipal Government of Balayan generated revenue of ₱315,226,955.58 sourced from local taxes, Internal Revenue Allotment (IRA), service, business and other sources of income. Total appropriations/allotments was ₱965,174,462.08 of which ₱353,966,790.76 or 36.67% was obligated during the year, thus leaving an unexpended balance of ₱611,207,671.32 or 63.33%.

The total assets, liabilities, equity, income and expenses of the Municipality for CYs 2019 and 2018 are as follows:

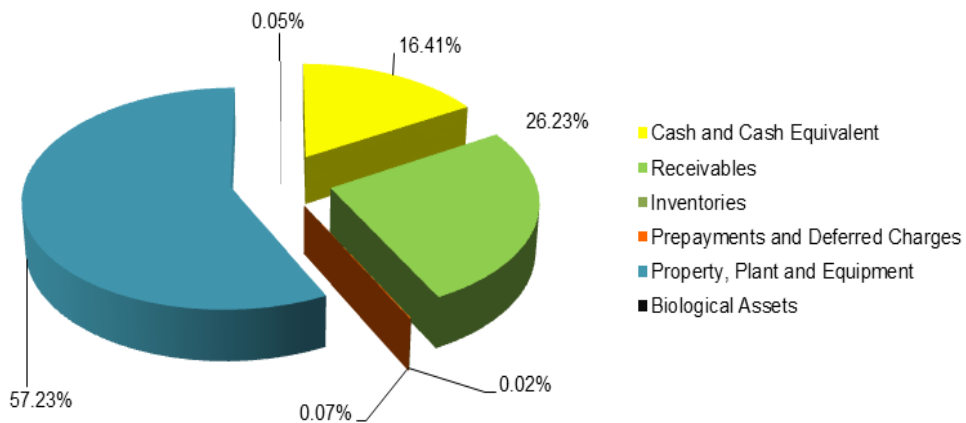
	2019	2018	Increase/Decrease
Assets	₱937,032,523.88	₱850,671,981.63	₱86,360,542.25
Liabilities	436,820,496.72	430,416,024.48	6,404,472.24
Equity	500,212,027.16	420,255,957.15	79,956,070.01
Income	315,226,955.58	300,451,596.65	14,775,358.93
Expenses	240,824,107.71	197,244,903.41	43,579,204.30

### Highlights of Financial Operations

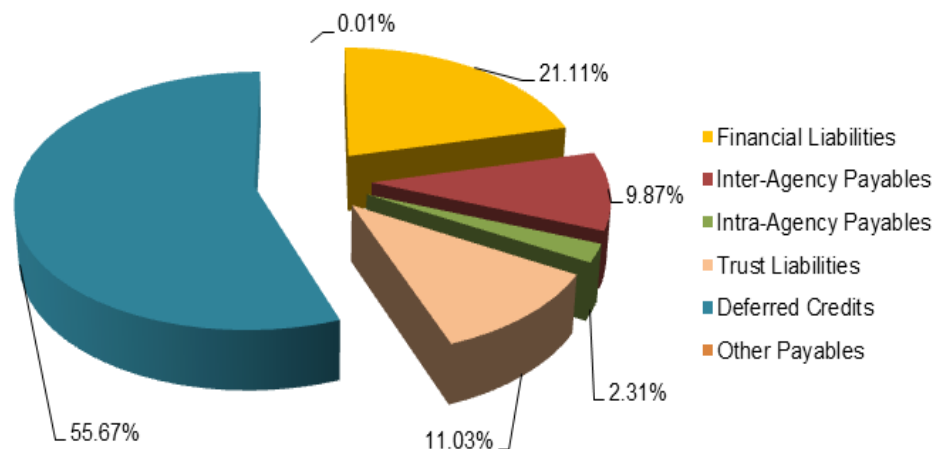


As shown in the above graph, everything increased in values for CY 2019. The Municipality's equity is composed of assets mainly financed from income from Internal Revenue Allotment.

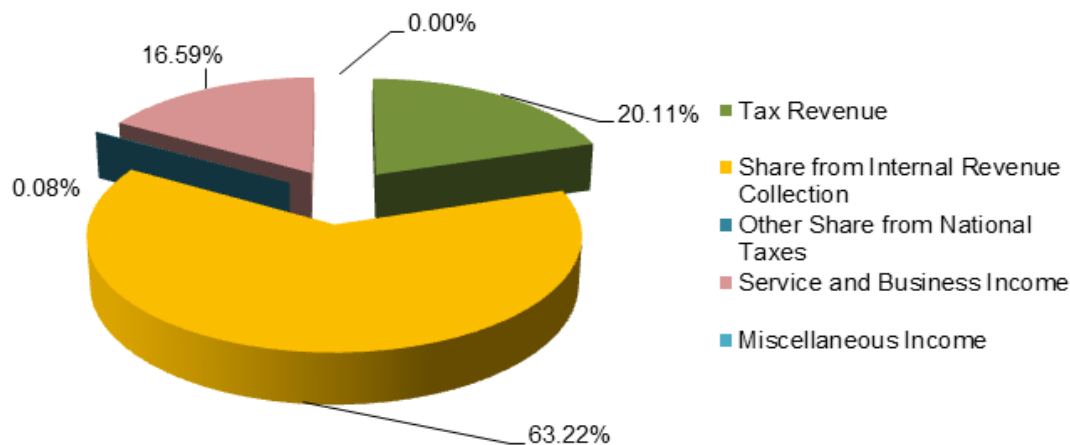
Assets of the Municipality is comprised mainly by Cash and Cash Equivalents (16.41%), Receivables (26.23%) and Property, Plant and Equipment (57.23%).



While liabilities of the Municipality are comprised mainly of Deferred Credits pertaining to Deferred Real Property Tax and Deferred Special Education Tax. Liabilities also include Financial Liabilities which is composed mainly of Loans Payables, Trust liabilities for the Local Disaster Risk Reduction and Management Fund (held intact within 5 years for disaster-related activities), and payables of other types.



Majority of the income earned by the municipality is generated from the Internal Revenue Allotment (IRA) (63.22%).



### Independent Auditor's Report on the Financial Statements

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

1. The Municipality was unable to substantially address prior years' issues on Property, Plant and Equipment (PPE) such as inaccurate PPE account balances, undetermined prior years' balances and non-compliance with accounting and reporting guidelines on the local roads asset management system. Hence, the existence, reliability, and fair presentation of the reported balance of the PPE accounts with a net book value of ₱536,266,980.88 as of December 31, 2019 remains doubtful, contrary to the pertinent provisions of the New Government Accounting System (NGAS) Manual for LGUs, Philippine Public Sector Accounting Standards (PPSAS), Presidential Decree (P.D.) No. 1445, and Commission on Audit Circular No. 2015-008.
2. Twenty-three (23) parcels of land owned by the Municipality with market value of ₱318,891,085.00 were not recorded in the books of accounts, resulting in an

understatement of the land account balance in the financial statements as of December 31, 2019. Moreover 18 parcels of land, consisting of 14 unrecorded and 4 recorded were not yet covered by Certificate of Title in violation of Article 47(c) of Administrative Order No. 270, Section 148 of COA Circular No. 92-386, exposing these properties for possible third party claims.

3. The accuracy and reliability of Real Property Tax (RPT) Receivable and Special Education Tax (SET) Receivable totalling ₱243,120,245.76 could not be ascertained due to discrepancies with the Municipal Treasurer's Office's reported balance of ₱17,384,938.25 in their report of delinquent real property and special education taxes of December 31, 2019, thereby incurring a total difference of ₱225,735,307.51, thus, affecting the fair presentation of the financial statements.
4. The reconciliation of actual amounts in the financial statements on comparable basis to the budget was not disclosed on the face of the Statement of Comparison of Budget and Actual Amounts (SCBAA) or in the Notes to the Financial Statements contrary to paragraph 47 of PPSAS 24, resulting to non-transparency of financial reporting.

### **Significant Audit Observations and Recommendations**

For the exceptions cited above, the Audit Team recommended that the Municipal Mayor:

1. a. Require the Municipal Accountant and GSO/Property Officer provide reconciliation of the difference noted and make appropriate adjustments in their respective records, if necessary, in the course of reconciliation of records made by the said offices in order to arrive at reliable balances of PPE accounts;
- b. Instruct the Municipal Accountant to review the balances of the reported Property, Plant and Equipment in view of the discrepancy of ₱28,766,115.24 between the reported purchase and construction of PPE in the Cash Flow Statement and the total additions to PPE in the Notes to Financial Statements in CY 2019;
- c. Require the Municipal Accountant to coordinate with the Municipal General Services Officer to determine the details of the beginning balances of the Property, Plant and Equipment (PPE) from their oldest available records for proper accountability and adjustment of accounts; and
- d. Immediately comply with the accounting and reporting guidelines provided in COA Circular No. 2015-008 dated November 23, 2015 to fairly present the LGU's financial statements.
2. We recommended that the Municipal Mayor require the:
  - a. General Services Officer, Municipal Assessor, Municipal Treasurer and Municipal Accountant to determine the nature and amount of acquisition of these lots, as basis of valuation;
  - b. General Services Officer and Municipal Assessor to conduct sites inspection and prepare the reports on the actual usage of each parcels of land and existence of unlawful occupants, if any, and provide the said report to the Municipal Accountant;

- c. Municipal Accountant to recognize in the Municipality's books of accounts the twenty-three (23) parcels of land using the market value indicated in the earliest applicable Tax Declarations under the name of the Municipality; and
  - d. Municipal Budget Officer and the Municipal Assessor include in the appropriations the titling of land owned by the Municipal Government.
3. Time and again, we recommended that the Municipal Mayor require the:
  - a. Municipal Treasurer to provide the Municipal Accountant the certified list of taxpayers with their corresponding amount due and collectible for the CY 2020 and years thereafter;
  - b. Municipal Accountant to record collection of receivables based on gross amounts of taxes collected and set-up receivables based on the total collectibles for the year as provided by the Municipal Treasurer;
  - c. Municipal Accountant to maintain individual subsidiary ledger card of taxpayers to ensure accuracy and reliability in the recognition of the RPT receivables; and
  - d. Municipal Accountant and Municipal Treasurer to reconcile the list of delinquent real property tax as of year-end against the recorded RPT and SET Receivables to present an accurate and reliable receivable accounts in the financial statements.

Aside from these perennial audit recommendations, we recommended also that the Municipal Mayor convene the Municipal Accountant and the Municipal Treasurer together with the Municipal Assessor to discuss thoroughly the matters on RPT and require these department heads to submit a commitment to the Municipal Mayor a timeline for the full implementation of the above recommendations in order to address the increasing uncollected real property taxes and to assure that the Municipality account an accurate and reliable RPT receivables.

4. We recommended that the Municipal Mayor instruct the Municipal Accountant to disclose the required reconciliation either on the face of the SCBAA or in the Notes to Financial Statements in compliance with paragraph 47 of PPSAS 24 to achieve transparency in financial reporting.

In addition, the following are other significant findings and recommendations:

1. Unreleased checks as of December 31, 2019 totalling ₱8,752,020.86 were considered paid and deducted from the cash and liability accounts and stale checks totalling ₱160,006.72 remained as bank reconciling items for LBP Account No. 2682-1009-77 and LBP Account No. 2682-1010-35 in violation of Section 2.4 and 2.5 of GAFMIS Circular Letter No. 2001-001 dated December 16, 2002 thereby misstating the Cash in Bank and related payable account balances in the financial statements as of December 31, 2019.

We recommended that the Municipal Mayor instruct:

- a. the Municipal Treasurer to a) prepare and submit to the Municipal Accounting Office the List of Unreleased Checks in time for the closing of the books to enable the reversion back to cash in bank and payable accounts of the amount of unreleased checks in order to fairly present the cash in bank and other affected accounts in the financial statements and b) for the checks which have become stale, send written notice to the payees for the existence of checks and require submission to facilitate issuance of new checks; and
  - b. the Municipal Accountant to effect the necessary adjustments of reconciling items determined during the preparation of the Monthly Bank Reconciliation Statements on a timely basis for an accurate and reliable Cash in Bank account balance in the financial statements.
2. Inconsistencies on the remittances for Bureau of Internal Revenue (BIR), Government Service Insurance System (GSIS), Philippine Health Insurance Corporation (PhilHealth) and Home Development and Mutual Fund (Pag-IBIG/HDMF) were noted contrary to the provisions of RA No. 8291 and RA No. 9679 casting doubts on the reliability of deductions and payments made by the Municipality.

We recommended that the Municipal Mayor require the Municipal Accountant to initiate a thorough review of the affected accounts to determine the cause/s of under and over remittance and make proper adjustments/corrections relative thereto. Moreover, ensure that all accounts are in their normal balances and fairly presented in the resulting financial statements.

3. The Municipality's actual revenue receipts of ₱299,305,765.48 mainly due to collection efforts from major income sources, fell short by net amount of ₱156,421,125.34, signifying that the targeted revenues of ₱455,726,890.82 resulting from several income accounts that registered decline in performance efficiency hence, affected municipality's financial position and may hinder the delivery of basic services to its constituents.

We recommended that the Municipal Mayor direct the Local Finance Committee (LFC) to:

- a. Undertake careful planning and execution of the proposed annual budget on the basis of realistic projection of revenues for the ensuing year and conduct proper review of past collection performances.
  - b. Conduct periodic assessment to ascertain whether collection targets are attained. The reasons for the shortfall in collections should be analysed and alternative actions should be looked into to avoid incurrence of misses in projections in the future.
4. The Municipality availed the services of six consultants as members of the Design and Build Committee for the construction of new of municipal building/government center with approved budget of ₱200,000,000.00 without observing the provisions of Republic Act (RA) 9184, thus depriving the municipality of the opportunity to obtain such services through competitive and transparent process.

We recommended that the Municipal Mayor instruct:

- a. The concerned Municipal Officials to submit credentials as to the experience, expertise and capabilities of consultants to support their selection; and
  - b. The Municipal Accountant and other concerned officials to strictly comply with the requirements on the procurement of consulting services and immediately submit the lacking documentary requirements provided in Section 9.1.2 of COA Circular No. 2012-001 to consider the transaction allowable in audit.
5. Disbursement Vouchers (DVs) totalling ₱29,833,333.33 were not yet submitted to the Auditor for audit contrary to Section 7.2 of COA Circular No. 2009-006 and Section 100 of Presidential Decree No. 1445, hence regularity, validity and legality of transactions could not be determined.

We recommended that the Municipal Mayor instruct the Municipal Accountant to submit immediately the paid disbursement vouchers including supporting documents to the Audit Team for verification and post audit as required by COA Circular No. 2009-006 and Presidential Decree No. 1445.

6. The submission of year-end financial statements and supporting schedules of the barangays for CY 2019 has not yet been fully complied with by the Municipal Accountant of the Municipality of Balayan contrary to Section 41 of the Presidential Decree No. 1445, COA Circular No. 2010-001 and COA Resolution No. 2019-002.

We recommended that the Municipal Accountant fully comply with the aforementioned law, rules and regulations of government accounting and auditing on the submission of the year-end financial statements particularly of the 48 barangays of the municipality.

7. Requisitions of supplies and equipment totalling ₱3,642,301.26 needed by various departments and offices for each quarter were not consolidated by the General Services Office (GSO) in the Annual Procurement Plan, thus resorted to alternative modes of procurement, thereby providing no assurance on the reasonableness of the procurement cost.

We recommended that the Municipal Mayor instruct the General Services Officer-Designate to meticulously and judiciously plan procurement for each quarter as consolidated and incorporate them in the Annual Procurement Plan (APP) in order to adopt competitive public bidding to provide reasonable assurance that the best quality at the lowest price is availed. Ensure that only those that are emergency in nature and those ordinary or regular supplies and materials not available in the Procurement Services (PS) and within the threshold are purchased through alternative modes of procurement.

8. Deficiency amounting to ₱57,669.40 was noted by the COA Technical Audit Specialist (COA-TAS) in the inspection and technical evaluation of project implemented by the Municipality of Balayan for CY 2018, thus may result to wastage of municipal fund if not corrected/refunded. In addition, four (4) projects totalling ₱15,347,668.92 lacked the necessary documents thus, technical evaluation/inspection of the COA TAS cannot be finalized.

We recommended that the Municipal Mayor instruct the Municipal Engineer to coordinate with the contractors and require them to refund the amount of deficiency



noted by the COA TAS and submit the required documents to avoid suspension/disallowance in audit.

9. Copies of Contracts and Purchase Orders together with their supporting documents were not submitted to the Audit Team within five (5) working days upon approval contrary to Commission on Audit (COA) Circular No. 2009-001 thus, timely review and evaluation of the same cannot be made. Likewise, the Audit Team was not notified of the deliveries within twenty four (24) hours from acceptance which is not in accordance with COA Circular No. 2009-002 hence, validation of the procurements made by the municipality was not done.

We recommended that the Municipal Mayor require the:

- a. General Services Officer and Municipal Engineer to submit copies of Contracts and Purchase Orders and their supporting documents to the Audit Team within five working days upon approval in compliance with COA Circular No. 2009-001;
  - b. Designated Inspector to furnish the Audit Team copy of delivery documents as required under COA Circular No. 2009-002 to facilitate the timely conduct of inspection of the delivered items; and
  - c. Municipal Engineer to request to the audit team for the inspection of completed projects as required by existing rules and regulations.
10. Lapses in reporting and utilization of Local Disaster Risk Reduction and Management Fund totalling ₱19,833,022.59 were noted in audit, thus defeating the purpose for which the fund was created contrary to Republic Act No. 10121 and COA Circular 2012-001 dated September 12, 2012 and the NDRRMC, DBM and DILG Joint Memorandum Circular 2013-01 dated March 25, 2013.

We recommended that the Municipal Mayor instruct the:

- a. MDRRMO to prepare the Monthly Report on Sources and Utilization of LDRRMF with the prescribed format provided in COA Circular 2012-001 certified correct by the Municipal Accountant and submit on or before the 15<sup>th</sup> day after the end of each month through the LDRRMC and Local Development Council;
- b. Municipal Accountant to transfer the unexpended balance of the LDRRMF-MOOE and QRF for CY 2019 amounting to ₱8,156,416.23 in the Trust Fund books;
- c. Municipal Accountant and Municipal Budget Officer to effect the necessary journal entries in the accounting books and Registry of Appropriation, Allotment and Obligations, respectively, for the reversion of LDRRMF amounting to ₱15,138,092.73 lodged in the trust fund books which remained unutilized for more than five years.
- d. Direct the Municipal Budget Officer, Municipal Accountant and MDRRMO to charge only eligible items against the fund and ensure that charges to Quick Response Fund are supported with Sangguniang Bayan Resolution declaring state of calamity; and
- e. MDRRMO to submit the Sangguniang Bayan Resolution declaring state of calamity for Bagyong Tisoy to the audit team for verification.

11. The Municipality was not compliant to the certain provision of Section 4.1 PCW/DILG/DBM/NEDA JMC No. 2013-01 and COA Circular No. 2014-001 in the appropriation and reporting of GAD Programs, Projects and Activities such as: a) amount budgeted was below the five percent (5%) of the total appropriation; and b) no copy of the approved GAD Plan and Budget (GPB) was submitted to COA, thus review and evaluation of the plan and reported accomplishments was not made.

We recommended that the Municipal Mayor require the GAD Focal Person and Municipal Budget Officer to prepare GAD budget in accordance with the aforementioned JMC.

We also recommended that the Municipal Mayor require the GAD Focal Person to submit to the Audit Team copy of the approved GPB to facilitate review and evaluate the plan and reported accomplishments.

### **Unsettled Suspensions, Disallowances and Charges**

As at December 31, 2019, the total outstanding audit suspensions, disallowances and charges of the Municipal Government of Balayan based on the Notice of Suspension (NS), Notice of Disallowances (ND), Notice of Charges (NC) and Notice of Settlement of Suspensions, Disallowances and Charges (NSSDC) issued by this Commission totalled ₱10,091,844.02.

### **Status of Implementation of Prior Year's Recommendations**

Of the 48 audit recommendations embodied in CY 2018 Annual Audit Report, 17 were fully implemented, 16 were partially implemented, and the remaining 15 were not implemented.