

## **EXECUTIVE SUMMARY**

### **A. Introduction**

Batac was founded by the Augustinians in 1587. It is the second oldest town established by the Augustinians in the province of Ilocos Norte. It is considered as the premier town of the province before Republic Act 9407, the law that converted the municipality into a component city in the Province of Ilocos Norte, to be known as the City of Batac, which was overwhelmingly ratified by the people in a plebiscite conducted on June 23, 2007.

In November 2008, Batac lost its cityhood along with 15 other cities, after the Supreme Court of the Philippines granted a petition filed by the League of Cities of the Philippines, and declared unconstitutional the cityhood law (RA 9407). Thus, continued the long legal fight for Batac's recognition as a city.

On June 28, 2011 the Supreme Court directed the Clerk of Court to issue forthwith the entry of judgment on the cityhood case of the 16 municipalities. Sealing with "finality of the resolution upholding the constitutionality of the 16 Cityhood Laws absolutely warrants the respondents' Motion for Entry of Judgment", the SC ruled.

The City of Batac as its name denotes, is a city where cooperation and unity is a way of life. The word Batac, in a local dialect translates as "pull". More loosely, it refers to "people's pulling their efforts together". It is also known as the "Home of Great Leaders" as it is the hometown of many significant figures in the history of our country. The city is also known for being the home of the Mariano Marcos State University, a high-degree-granting university that has several branches in the province.

The city is situated in the mid south-western portion of Ilocos Norte. It is bounded by the municipalities namely: San Nicolas on the north; Sarrat and Banna on the East; Nueva Era on the southeast; Pinili on the south; Currimao and Paoay on the west. It is more or less 18 kilometers (km) to Laoag City; 205 km to the Regional Center, San Fernando City, La Union and about 472 km to Metro Manila. It is about 11.2 km away from the eastern shores of the South China Sea. It has a land area of 161.01 sq. km with 43 barangays (14 urban barangays and 29 rural barangays). The city has a population of 55,201 as of the 2015 census.

The City of Batac aspires to be the economic nucleus in Northern Luzon through a development oriented agriculture, entrepreneurship, commerce and industry; where peace-loving and friendly people live in ecologically balanced environment governed by responsive political leadership.

To carry on with the city's objectives and vision, the City Government is under the administration of Honorable City Mayor Albert D. Chua having a total working force of 420 categorized as follows:

Elective Officials	14
Permanent	214
Coterminous	3
Casual	71
Job Orders	116
Temporary	<u>2</u>
Totals	<u>420</u>

## B. Financial Highlights

Comparative financial highlights of the City for Calendar Years 2018 and 2017 are as follows:

ACCOUNTS	2018	2017	Increase/ (Decrease)	% Increase/ (Decrease)
Assets	2,200,988,120.84	1,992,026,353.08	208,961,767.76	10.49%
Liabilities	279,463,718.23	308,911,259.14	(29,447,540.91)	(9.53%)
Government Equity	1,921,524,402.61	1,683,115,093.94	238,409,308.67	14.16%

  

SOURCES OF FUNDS	2018	2017	Increase/ (Decrease)	% Increase/ (Decrease)
Local Sources	126,889,450.70	112,060,971.01	14,828,479.69	13.23%
External Sources	410,492,157.00	425,791,481.73	(15,299,324.73)	(3.59%)
Total Income	537,381,607.70	537,852,452.74	(470,845.04)	(0.09%)

  

APPLICATION OF FUNDS	2018	2017	Increase/ (Decrease)	% Increase/ (Decrease)
Personal Services	112,244,716.32	103,177,498.94	9,067,217.38	8.79%
MOOE	159,278,272.71	116,387,521.03	42,890,751.68	36.85%
Non-Cash Expenses	35,847,208.60	22,228,513.31	13,618,695.29	61.27%
Total Expenses	307,370,197.63	241,793,533.28	65,576,664.35	27.12%

## C. Operational Highlights

For CY 2018, the City implemented various programs and projects, to wit:

### General Services Sector

- Centralized Automated LGU System P6,000,000.00

### Social Services Sector

- Premium Subsidy for Sponsored (Indigent) Program 8,644,800.00
- Social Fund 1,369,500.00

**Human Resource Development Program**

➤ Leadership and Management Training	232,611.27
➤ Health and Wellness Program	625,714.72

**Economic Services Sector**

➤ Purchase of Vibratory Roller	3,998,000.00
➤ Purchase of 43 Units Dump truck	57,835,000.00
➤ Purchase of 1 Unit Road Grader	4,995,000.00
➤ Farm Mechanization	16,764,250.00

Among the infrastructure projects completed during the year are as follows:

<b>Program/Project</b>	<b>Cost</b>
1. Construction of Community Center	
Brgy. Camguidan	P3,723,361.83
Brgy. Maipalig	3,670,000.00
Brgy. Payao	3,370,000.00
2. Concreting of FMR	
Cluster 1	14,728,384.50
Cluster 2	14,873,681.77
3. Construction of Cornik Processing Center	1,954,835.67
4. Roadway Slope Protection	
Sitio Sabe Sabe West, Brgy. Palongpong	1,786,804.04
Sitio 4, Brgy. Naguirangan	481,893.47
5. Covered Court @ Quiom-Maipalig Elementary School	1,242,871.30
6. Rehabilitation of Protection Wall at Brgy. Sumader	1,934,257.82
<b>Total</b>	<b><u>P47,766,090.40</u></b>

Aside from the above accomplishments, it is also worth mentioning that the City Government was a recipient of the following awards, to wit:

- Most Improved LGU in Region I (67<sup>th</sup> Place Nationwide)
- Scroll of Honor conferred by Philippines Red Cross

**D. Scope of Audit and Methodology**

We conducted a comprehensive audit on the accounts and operations of the City Government of Batac, Ilocos Norte for the calendar year ended December 31, 2018. The audit was focused on the audit thrusts/areas issued by the Local Government Sector for CY 2018. The audit was conducted to ascertain the propriety of financial transactions and the accuracy of financial records and reports and compliance of the agency with prescribed rules and regulations. It was also made to ascertain whether the programs as envisioned were attained in an economical, efficient and effective manner.

## **E. Auditor's Opinion on the Financial Statements**

We rendered a qualified opinion on the fairness of the presentation of the financial statements because the existence, completeness, accuracy and reliability of the recorded Property, Plant and Equipment and Inventories in the amount of P1,107,415,002.26 and P14,243,039.67, respectively, could not be ascertained due to non-conduct of physical count thereof and the non-submission of the required Inventory Reports and failure to comply with the transition provision for the recognition of 75% of Local Road and Road Network System as part of the City's property, plant and equipment (PPE) account at the end of calendar year 2018 contrary to COA Circular No. 2015-008 dated November 23, 2015 thus, affecting the fair presentation of the infrastructure assets account in the financial statements. Further, the accuracy of the Cash-Local Treasury Account balance of P5,847,182.35 was not ascertained due to non-reconciliation of the records of the City Accountant and the City Treasurer. This resulted in the differences of (P250,916.51), the same being not in line with the provision of Section 74 of Presidential Decree No. 1445 and Section 6.3 of COA Circular No. 97-002 dated February 10, 1997, thereby, affecting the fair presentation of the account in the financial statements. Also, the validity, propriety and existence of the reported Accounts Payable for all funds at year-end amounting to P6,527,741.34 were doubtful due to non-presentation of supporting documents to vouch the claims which is not in line with pertinent provisions of laws, rules and regulations, thus, overstating the recorded accounts payable and corresponding expense accounts and understating Government Equity by the same amount.

## **F. Significant Audit Observations and Recommendations**

Some transactions which need to be corrected or improved are enumerated in the herein audit observations with their corresponding recommendations, as follows:

1. The existence, completeness, accuracy and reliability of the Property, Plant and Equipment account in the total amount of P1,107,415,002.26, as well as P14,243,039.67 worth of Inventories as of December 31, 2018 could not be ascertained due to non-conduct of physical count thereof and the non-submission of the required inventory reports. Due to the foregoing, accuracy and reliability of the PPE account is doubtful.

We recommended that Management take the following courses of action:

- a. Undertake actual physical inventory of all properties of the City Government and prepare the corresponding RPCPPE and RPCI duly reconciled with the Property and Accounting records and submit copies of the report to the Auditor's Office for verification within the reglementary period prescribed by existing rules and regulations as herein discussed;

- b. Require the City GSO and the City Accountant to prioritize and exert best efforts to reconcile their records as regards properties/inventories to ensure the accuracy, existence, completeness and reliability of the same in the financial statements;
  - c. Notify and/or inform the Office of the Auditor as to when inventory taking will take place in order for us to witness the said activity; and
  - d. Employ effective internal control practice in managing the property, plant and equipment of the city by using inventory/property tags.
2. The LGU was not able to comply with the transition provision for the recognition of 75% of Local Road and Road Network System as part of the City's property, plant and equipment (PPE) account at the end of calendar year 2018 contrary to COA Circular No. 2015-008 dated November 23, 2015 thus, affecting the fair presentation of the infrastructure assets account in the financial statements.

We recommended that Management take the following courses of action:

- a. Require the City Accountant, City GSO and City Engineer to comply to the accounting and reporting guidelines as prescribed in COA Circular 2015-008;
  - b. The Inventory Committee shall conduct an inventory of the local roads under the jurisdiction of the City and render a Report on the Physical Count of the Road Network System;
  - c. Adhere to the provisions of COA Circular 2015-008 dated November 25, 2015.
3. The balances of the Cash-Local Treasury Account between the records of the City Accountant and the City Treasurer showed a negative variance of P250,916.51, the same being not in line with the provision of Section 74 of Presidential Decree No. 1445 and Section 6.3 of COA Circular No. 97-002 dated February 10, 1997, thereby, affecting the fair presentation of the accounts in the financial statements.

We recommended that Management take the following courses of action:

- a. The City Treasurer and the City Accountant should coordinate with each other and reconcile the discrepancies on their records. Adjust and/or correct the record that needs adjustment for the fair presentation of the financial statements; and
- b. Reconcile regularly or at least quarterly the cashbooks with that of the corresponding subsidiary ledger in accordance with the provisions of

Section 74 of Presidential Decree No. 1445 and Section 6.3 of COA Circular No. 97-002 dated February 10, 1997.

4. Accounts Payable for all funds amounting to P6,527,741.34 were not supported with complete documentations to prove their validity, propriety and existence which is not in line with pertinent provisions of laws, rules and regulations, thus, overstating the recorded accounts payable and corresponding expense accounts and understating Government Equity by the same amount.

We recommended and Management agreed on the following:

- a) Set-up and/or record accounts payable with valid and complete supporting documents in adherence to Section 157 of the Government Accounting and Auditing Manual, Volume I, Section 4(6) of Presidential Decree No. 1445 and PPSAS 1;
- b) Present supporting documents of recorded year-end payables to establish their validity, propriety and existence;
- c) Revert prior years' balances of accounts payable which have remained in the books of accounts for two years or more in line with the provision of Section 98 of Presidential Decree No. 1445; and
- d) Revisit the existing process of procurement of the City Government starting from planning, budgeting and accounting and design an effective monitoring system with the objective of reflecting the true amount of Accounts Payable duly supported by proper and necessary documents.

Other audit observations and recommendations are discussed in detail in Part II of this report.

#### **G. Summary of Total Suspensions, Charges and Disallowances**

<b>Particulars</b>	<b>Balance as of December 31, 2017</b>	
	<b>Prior to 2009 RRSA</b>	<b>2009-2017</b>
Suspensions	0.00	P 6,510,889.21
Charges	0.00	0.00
Disallowances	0.00	P 3,460,699.28

#### **H. Status of Implementation of Prior Years' Audit Recommendations**

<b>Status of Implementation</b>	<b>Quantity</b>
Fully Implemented	23
Partially Implemented	3
Not Implemented	32