

EXECUTIVE SUMMARY

A. INTRODUCTION

The City Government of Batac was created by virtue of Republic Act (RA) No. 9407. This law converted the Municipality of Batac into a component city in the Province of Ilocos Norte, which was ratified by the people in a plebiscite conducted on June 23, 2007. It has a total land area of 161.01 square kilometers and is composed of 43 barangays.

It 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.

The City Government is under the administration of Honorable City Mayor Engr. Albert D. Chua with a total working force of 441 officials and employees of which 14 are elective, 227 are permanent, 6 are co-terminus, 74 are casual, 118 are job orders and 2 are temporary.

B. OPERATIONAL HIGHLIGHTS

For Calendar Year (CY) 2020, the City Government garnered the following awards and recognitions:

- 4th Most Improved Local Government Unit (LGU) in the Philippines based on the 2020 Cities and Municipalities Competitiveness Index (CMCI)
- Most Improved LGU in Region I based on the 2020 CMCI
- Bronze Award of Excellence in Human Resource Management by the Civil Service Commission

Thirty-five infrastructure projects were completed in CY 2020. The following are the major accomplishments of the City Government which were validated by the Audit Team:

Programs/Projects/Activities	Project Cost (₱)
Construction of Community Center-Naguirangan	3,621,312.11
Construction of Multi-Purpose Hall - Quiling Sur	3,951,114.52
Construction of Multi-Purpose Hall – Biningan	2,666,963.28
Construction of Multi-Purpose Hall – Parangopong	4,336,349.25
Construction of Multi-Purpose Hall - San Pedro	3,975,656.70
Construction of Multi-Purpose Hall - Baoa East	2,714,323.26
Construction of Multi-Purpose Hall - Baoa West	3,757,061.39
Construction of Multi-Purpose Hall – Camandingan	3,882,726.96

Programs/Projects/Activities	Project Cost (₱)
Concreting of Farm to Market Roads for Brgys. Baay, Bungon, Baligat, Quiling Norte, Quiling Sur, Tabug, Mabaleng, Payao, Baoa West, Palongpong	53,672,999.66
Concreting of Farm to Market Roads for Brgys. Magnuang, Pimentel, Colo, Parangopong, Dariwidi	29,773,344.82
Improvement of Water System in Quiom	1,460,830.90
Construction of Isolation Room Partition Wall	797,900.00

C. FINANCIAL HIGHLIGHTS

Comparative financial highlights of the City Government for the CYs 2020 and 2019 are as follows:

Particulars	2020	2019	Increase (Decrease)	
			Amount	%
Financial Position				
Assets	3,045,588,882.77	2,765,654,670.14	279,934,212.63	10.12
Liabilities	318,453,559.84	331,727,004.87	(13,273,445.03)	(4.00)
Equity	2,727,135,322.93	2,433,927,665.27	293,207,657.66	12.05
Financial Performance				
Income	754,681,742.19	896,780,714.27	(142,098,972.08)	(15.84)
Expenses	(502,051,681.86)	378,018,563.02	124,033,118.84	32.81
Net Financial Assistance/				
Subsidy	35,256,901.73	(11,860,457.97)	47,117,359.70	397.26
Surplus	287,886,962.06	506,911,693.28	(219,024,731.22)	(43.20)
Sources and Application of Funds				
Current Legislative Appropriations:				
Appropriations	1,079,822,139.10	1,007,682,912.28	72,139,226.82	7.16
Allotments	1,079,822,139.10	1,007,682,912.28	72,139,226.82	7.16
Obligations	467,514,877.66	598,515,931.10	(131,001,053.44)	(21.89)
Balance	612,307,261.44	359,293,968.93	253,013,292.51	70.42
Continuing Appropriations:				
Appropriations	833,686,917.33	735,237,421.77	98,449,495.56	13.39
Allotments	833,686,917.33	735,237,421.77	98,449,495.56	13.39

Particulars	2020	2019	Increase (Decrease)	
			Amount	%
Obligations	40,385,995.66	208,871,639.58	(168,485,643.92)	(80.66)
Balance	793,300,921.67	526,365,782.19	266,935,139.48	50.71

D. SCOPE OF AUDIT

A comprehensive audit was conducted on the accounts and operations of the City Government of Batac, Ilocos Norte for the CY ended December 31, 2020. The audit was focused on the audit thrusts/areas issued by the Local Government Sector for CY 2020. 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. STATE AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the City Government of Batac as at December 31, 2020 due to the misstatement of the Property, Plant and Equipment (PPE) as a result of the a) non-recognition of the value of road lots and other local roads constructed and completed prior to CY 2016; b) errors in the computation of depreciation of recorded components of the Road Networks of ₱8,555,024.01; c) capitalized cost of donated construction materials and supplies under the Road Networks with a carrying amount of ₱5,721,966.02; and d) book-up of Buildings owned by the different barangays of the City Government with carrying amount of ₱71,060,251.53.

F. SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following are some of the other significant audit observations and recommendations that need action by Management. All audit observations and corresponding recommendations were discussed with Management officials concerned in an exit conference on March 26, 2021 and are presented in detail in Part II of this report. Management views and comments were incorporated in the report where appropriate.

1. Nonexistent inventory items costing ₱5,228,191.02, accountable forms in stock inadvertently recorded as expenses amounting to ₱1,763,284.60, unrecorded receipt and issuance of drugs and medicines from the Provincial Department of Health Office (PDOHO) and Provincial Health Office (PHO), and lack of documents/reports/records to support the reported balances of Inventory accounts in the financial statements, which are contrary to Sections 63 and 111 of

Presidential Decree (PD) No. 1445 and Section 375.d of RA No. 7160, rendered the validity and accuracy of the year-end balances of Inventory accounts totaling ₱38,646,681.22 uncertain.

We recommended that Management instruct the:

- a. Inventory Committee to conduct the required physical count of inventory items every semester and to submit the Report of Physical Count of Inventories (RPCI) to the Auditor's Office with the certification and approval of the Agency Head not later than July 31 of the current year for the 1st semester and January 31 of the ensuing year for the 2nd semester;
 - b. City Accountant and City General Services Officer (CGSO) to maintain supplies ledger cards and stock cards, respectively, for each inventory item/stock and to conduct periodic reconciliation of their records;
 - c. CHO Supply Officer to immediately prepare and submit to the CGSO the corresponding report of receipt and issuances of drugs and medicines, medical supplies and all the other items from the PDOHO and PHO;
 - d. CGSO to furnish a copy of the report of receipt and issuances to the City Accountant for proper and timely recording in the books of accounts; and
 - e. City Accountant to record issuance of inventory items held in stock based on Summary of Supplies and Materials Issued (SSMI) and to correct the errors in order to accurately present the balances of the Inventory accounts.
2. Accounts Payable was overstated by ₱2,201,092.09 due to non-restoration of payables for unreleased checks as of year-end, misclassification of accounts, and undocumented payable accounts which are not in accordance with International Public Sector Accounting Standards (IPSAS) 41, Section 4(ii) and Section 352 of the Government Accounting Manual (GAM) for LGUs, COA Circular No. 2015-009 and Section 4(6) of PD No. 1445, thereby affecting the fair presentation of the Accounts Payable and related accounts in the financial statements.

We recommended that Management instruct the:

- a. City Treasurer to provide the City Accountant Schedule of Unreleased Commercial Checks; and
- b. City Accountant to prepare the corresponding Journal Entry Voucher (JEV) to restore the cash and liabilities pertaining to the unreleased check at the end of year and reverse the same at the beginning of the ensuing year; to ensure that all claims and recorded payables are duly supported with disbursement vouchers to establish the validity of the claims before recording the obligations pursuant to Section 4(6) of P.D. No. 1445; and to take up the necessary

adjusting journal entries to reflect the correct balances of the Accounts Payable and other affected accounts.

3. The Construction of Biningan Multi-Purpose Hall was certified as 100% completed in the Statement of Work Accomplished (SWA) and subsequently issued with Certificate of Completion contrary to actual project completion on site, rendering the validity of the certifications doubtful and discharging the contractor from liquidated damages.

We recommended that Management:

- a. Direct the City Engineer to establish the actual accomplishment on January 6, 2020 and the actual completion date of the project and compute for the liquidated damages incurred;
- b. Demand payment of liquidated damages from the contractor for the delay in the completion of the Construction of Biningan Multi-purpose Hall; and
- c. Direct the Project Engineers to conduct a thorough inspection and validation of the actual accomplishment on all infrastructure projects submitted for progress billing and prepare status reports showing the accurate actual work accomplished as compared to the contractor's SWA.

G. SUMMARY OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 89 prior years' audit recommendations, 53 were fully implemented and 36 were not implemented.

H. STATUS OF SETTLEMENT OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

Particulars	Suspensions (₱)	Disallowances (₱)	Charges (₱)
Balance, Dec. 31, 2019	3,152,629.44	5,030,771.96	702,547.61
Issued	0.00	0.00	0.00
Settled	272,304.13	297,843.62	702,547.61
Balance, Dec. 31, 2020	<u>2,880,325.31</u>	<u>4,732,928.34</u>	<u>0.00</u>