**EXECUTIVE SUMMARY**

1. **Introduction**

The Province of La Union was created by virtue of “Superior Decreto” issued on March 2, 1850 by Governor-General Antonio Maria Blanco. Today, La Union is classified as a first class, progressive, growth-oriented province comprising of a lone city and 19 municipalities, with 576 barangays.

The Province is under the new leadership of Governor Raphaelle Veronica “Rafy” Ortega-David. The total personnel complement of the Provincial Government of La Union (PGLU) as at December 31, 2023 is 1,917 consisting of: elected officials–15; permanent–1,050; temporary/co-terminus–72; casual/contractual/job order–772; consultants–8.

Audit procedures conducted included internal control review; examination of documents/records/reports; analysis, confirmation and inspection of selected accounts, transactions, programs and projects. The procedures selected depended on the auditor’s judgment, including assessment of the risks of material misstatements of the financial statements; whether due to fraud or error in making those risk assessments, we limited internal control testing to those controls over financial reporting and compliance issued which we considered based on our professional judgment.

The audit covered the financial transactions and operations of the PGLU from January 1 to December 31, 2023.

1. **Operational Highlights**

The following are the major programs, projects and activities (PPAs) of the PGLU and the amounts for Calendar Year (CY) 2023:

| **Projects, Programs, Activities** | **Quantity** | **Amount (₱)** |
| --- | --- | --- |
| ***Infrastructure Development*** |  |  |
| ***Agriculture Sector*** |  |  |
| Construction/Rehabilitation/Improvement/Upgrade of Farm to Market Roads | 48 projects | 179,445,387.01 |
| Construction/Rehabilitation of Farmers Multi-Purpose Centers/Buildings | 19 projects | 115,167,597.54 |
| ***Education Sector*** |  |  |
| Construction/Repair of Schools/Classrooms and Facilities | 18 projects | 35,870,235.69 |
| Construction/Repair of Schools Covered Court | 8 projects | 36,803184.30 |
| ***Health Sector*** |  |  |
| Construction/Rehabilitation of Hospital Buildings, Facilities, Barangay Health Stations with Birthing Facility | 9 projects | 34,269,026.41 |
| ***Disaster Risk Reduction and Management Sector*** |  |  |
| Construction of Drainage/Flood Control System | 11 projects | 61,246,514.19 |
| ***Other Infrastructure Projects*** |  |  |
| Construction/Rehabilitation/Improvement of Provincial Roads | 18 projects | 65,348,303.29 |
| Construction/Rehabilitation/Improvement of Provincial Bridges | 5 projects | 39,632,458.15 |

**C. Financial Highlights**

The comparative data on the Financial Position and Financial Performance of the Province for the CYs 2023 and 2022 are presented below:

The Audit Team noted that a significant portion in the increase of asset pertains to the 1,316.50% increase on Property and Equipment for Distribution account. This represents the 92 undistributed units Multi-Purpose Health and Rescue Vehicle. The total liabilities soared because of the increases recorded in the Accounts Payable and Due to NGAs accounts. The PGLU received significant trust funds from the Department of Health which led to the increase of Due to NGAs account. The decrease in income was mainly caused by the significant cut on the receipt of Share from Tobacco Excise Tax (RA Nos. 7171 and 8240) while a material decrease in expenses was also noted due to non-recurrence of the loss absorbed in the sale of investment property last 2022.

The comparative Sources and Application of Funds for CYs 2023 and 2022 are summarized as follows:

| **Particulars** | **2023** | **2022** |
| --- | --- | --- |
| ***General Fund:*** |  |  |
| Allotments | 3,863,948,693.20 | 3,736,197,130.71 |
| Obligations | 2,883,987,302.12 | 2,923,673,802.53 |
| Balance | **979,961,391.08** | **812,523,328.18** |
| ***Continuing Appropriations*** |  |  |
| Allotments | 684,290,975.53 | 468,665,145.92 |
| Obligations | 429,070,886.79 | 274,775,244.40 |
| Balance | **255,220,088.74** | **193,889,901.52** |
| ***Special Education Fund*** |  |  |
| Allotments | 172,461,600.73 | 105,483,000.00 |
| Obligations | 167,542,738.45 | 98,774,124.67 |
| **Balance** | **4,918,862.28** | **6,708,875.33** |

**D. Scope of Audit**

A comprehensive audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). The audit was conducted to ascertain the fairness of the presentation of the financial statements and compliance of the Province with laws, rules and regulation, as well as the economical, efficient and effective utilization of resources.

**E. Auditor’s Opinion on the Financial Statements**

A qualified opinion on the fairness of presentation of the financial statements was rendered because a) obligations were recognized only upon payment rather than at the time the contracts were perfected. Consequently, obligations for prior-year contracts of goods and infrastructure projects were only recorded in CY 2023, resulting in an overstatement of the amounts presented under the Original and Final Budget and Actual Amounts columns of the Continuing Appropriations for Capital Outlay in the Statement of Comparison of Budget and Actual Amounts (SCBAA). The overstatement amounts to ₱124,363,836.47, respectively; and b) accumulated depreciation was understated by at least ₱3,604,376.51 due to the inconsistent application of a salvage value of 10 percent for some PPEs, instead of the prescribed five percent.

**F. Significant Audit Observations and Recommendations**

We commend the Provincial Accounting Office for the early submission of the Year-End Financial Statements for CY 2023 on January 29, 2024. We likewise acknowledge the positive response of management on our previous years’ audit recommendations and current year’s audit observation memoranda.

The audit team also noted the following other significant audit observations on the operations of the PGLU for the CY 2023 and has given the corresponding recommendations, as follows:

1. The justification for granting time extensions due material shortages and rain-related delays, ranging from 76 to 181 days, for 11 infrastructure projects totaling ₱54,555,776.27 could not be confirmed due to lack of supporting documents, discrepancies between the number of suspended days and the data from Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA), as well as inconsistencies in the suspended days granted to nearly identically located projects. This does not align with the pertinent provisions of Annex E of the Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184, thereby raises concerns about the reasonableness of the extensions granted which prolonged the implementation of the projects.

We recommended that the Provincial Governor direct the Provincial Engineer to:

1. Require personnel who undertake inspection or assessment to make a monitoring, inspection, or accomplishment report for every site inspection, which must be duly documented and backed up with photos. Otherwise, require the contractor to submit the geotagged photos of the site to back up his claims, and
2. Defer the recommendation of suspension of work in the absence of proofs to the back-up reasons stated therein or those not in accordance with RA No. 9184. In the absence of supporting documents, the unworkable days perceived in the PAGASA Reports should be followed in the grant of time extensions.
3. Eleven infrastructure projects amounting to ₱57,542,560.20 were delayed by 30 to 200 days due to inadequate planning, detailed engineering and coordination with the stakeholders and end-users, contrary to Annex “A” of the 2016 Revised IRR of RA No. 9184, therefore hindering the constituents from getting timely benefit from these projects.

We recommended the Management:

1. Ensure that all parties in the project, including the requestor and end-user, are involved in the planning phase in order that their preferences such as design, specification, location and timing are considered in order to avoid changes during the implementation phase;
2. Require any requestor to disclose whether they have already requested the same project from other government agencies and remind them to wait for the response of the PGLU before submitting any request letter to other agencies to avoid duplication of project;
3. Coordinate with the different agencies, especially the Department of Public Works and Highways (DPWH) and the partner Local Government Units (LGUs), and reconcile the respective Annual Procurement Plans (APPs) and Supplemental Procurement Plans (SPPs) of the parties involved to detect any potential duplication or overlapping, and if necessary, to consider any possible schedule adjustment to harmonize the implementation of the infrastructure projects; and
4. Conduct a comprehensive assessment of the Provincial Engineering Office (PEO)'s staffing requirements, taking into consideration the workload, especially the tasks related to monitoring.
5. The PGLU only utilized 51% or ₱178,779,497.91 out of the total 20% Development Fund (DF) current year budget amounting to ₱350,071,598.00 due to weak linkage between the planning and the budgeting; and inclusion of PPAs that are not well-planned and procurement-and-implementation-ready contrary to the Section 3.2.1 and 3.2.3 of the Department of Budget and Management (DBM) – Department of Finance (DOF) – Department of the Interior and Local Government (DILG) Joint Memorandum Circular (JMC) No. 2020-001 and Budget Operations Manual (BOM), thus, the development needs of constituents were not satisfied in the most timely, effective and efficient manner.

We recommended that the Provincial Governor direct the:

1. Department heads of the implementing offices:
2. With the coordination of the Provincial Engineer, to assure that their proposed 20% DF PPAs had undergone thorough planning and detailed engineering;
3. Discontinue incorporating PPAs that functioned like a contingency fund in the list of their proposed 20% DF PPAs;
4. Identify specifically the description of their proposed PPAs, including their complete title and location;
5. Consider PPAs that do not involve any third-party counterparts as their proposed 20% DF PPAs. Otherwise, strictly monitor the timing of the implementation of the counterpart to avoid delay or reprogramming, and
6. Inform the Provincial Development Council (PDC) immediately if the full implementation of their 20% DF PPAs within the current year is not feasible.
7. Provincial Planning and Development Coordinator (PPDC) to verify the procurement-and-implementation readiness of the proposed 20% DF PPAs and to continue the strict monitoring and evaluation of the implementation of the 20% DF PPAs; and
8. Provincial Budget Officer (PBO) to ensure that PPAs budgeted are consistent with those programmed in the Annual Investment Program (AIP) including the sources of fund. If there are discrepancies noted, promptly coordinate with the PPDC to ensure proper linkage between planning and budgeting.

The audit team had discussed the observations and recommendations with the PGLU and comments were incorporated in the report where appropriate. The exit conference was conducted on May 20, 2024.

**G. Status of Implementation of Prior Years’ Audit Recommendations**

Of the 118 prior years’ audit recommendations, 43 were fully implemented and 75 were not implemented, of which, 16 were reiterated in Part II of this Annual Audit Report (AAR) as follows:

|  |  |
| --- | --- |
| **Status of Implementation** | **Quantity** |
| Fully Implemented | 43 |
| Not Implemented | 75 |
| **Total** | **118** |

**H. Status of Settlement of Audit Suspensions, Disallowances and Charges**

For CY 2023, there were no Notice of Suspensions, Disallowances nor Charges issued.

**I. Report on Real Property Disposal**

The Report on Real Property Disposal showed that PGLU has no real property disposed for CY 2023.