



Republic of the Philippines
Commission on Audit
Commonwealth Avenue, Quezon City

ANNUAL AUDIT REPORT

on the

**CITY OF NAGA,
CAMARINES SUR**

For the Year Ended December 31, 2021



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
REGIONAL OFFICE NO. V
Rawis, Legazpi city

OFFICE OF THE REGIONAL DIRECTOR

April 15, 2022

Honorable NELSON S. LEGACION
City Mayor
Naga City

Dear Mayor Legacion:



We are pleased to transmit the Annual Audit Report on the audit of the accounts and operations of the City Government of Naga, Camarines Sur for the year ended December 31, 2021, in compliance with Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

The audit was conducted to: (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) determine the propriety of transactions as well as the extent of compliance with applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations.

Audit thrust areas for CY 2021 have been audited which includes: 1) Receipt, Allocation and Utilization of COVID-19 fund; 2) Cash and Cash Equivalents; 3) Property, Plant and Equipment (PPE); 4) Fund Transfers from National Government Agencies (NGAs); 5) Fund Transfer to Other LGUs; 6) 20% Development Fund; Local Disaster Risk Reduction Management Fund (LDRRMF); 8) Revenue; and 7) Housing Settlement Development Program. On the other hand, a) Other General Services Account; and Solid Waste Management have been audited but no significant findings have been noted.


The attached Report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, which were discussed with concerned officials and staff, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the City for the year ended December 31, 2021.

We request that the recommendations be promptly implemented and we would appreciate being informed of the actions taken thereon within sixty (60) days from receipt hereof, using the prescribed format of the attached copy of the Agency Action Plan and Status of Implementation (AAPSI).

We express our appreciation for the support and cooperation extended to our Auditors by the officials and staff of the City.

Very truly yours,



ATTY. JOEL S. ESTOLATAN
Director IV

Copy furnished:

1. The Regional Director
Bureau of Local Government Finance, Region V, Legazpi City
2. The Secretary
Department of the Interior and Local Government
Francisco Gold Condominium, Cubao, EDSA, Quezon City
3. The Secretary of the Sangguniang Panglungsod of Naga City
Office of the Sangguniang Panglungsod
City of Naga
4. The City Accountant
City Government of Naga
Naga City, Camarines Sur
5. The Director
National Library of the Philippines
T.M. Kalaw St., Ermita, Manila (e-copy)
6. UP Law Center
Bocobo Hall, UP Law Complex
University of the Philippines, Diliman, Quezon City (e-copy)
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Commonwealth Avenue, Quezon City (e-copy)



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
REGIONAL OFFICE NO. V
PROVINCE OF CAMARINES SUR
PROVINCIAL SATELLITE AUDITING OFFICE
San Jose, Pili, Camarines Sur

Office of the Supervising Auditor

April 11, 2021

Memorandum for –

ATTY. JOEL S. ESTOLATAN

Regional Director

COA Regional Office No. V

Rawis, Legazpi City


In compliance with Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, we conducted a Financial and Compliance, Value For Money and Revenue Audits on the accounts and operations of the City of Naga for the year ended December 31, 2021.

The audits were conducted to: (a) obtain a reasonable assurance about whether the financial statements are fairly presented and whether the agency had complied with the existing law, rules and regulations governing the use/disposition of government funds and property; and (b) determine the economy, efficiency and effectiveness of implementation of selected programs/projects/activities for CY 2021.

Audit thrust areas for CY 2021 have been audited which includes: 1) Receipt, Allocation and Utilization of COVID-19 fund; 2) Cash and Cash Equivalents; 3) Property, Plant and Equipment (PPE); 4) Fund Transfers from National Government Agencies (NGAs); 5) Fund Transfer to Other LGUs; 6) 20% Development Fund; Local Disaster Risk Reduction Management Fund (LDRRMF); 8) Revenue; and 7) Housing Settlement Development Program. On the other hand, a) Other General Services Account; and Solid Waste Management have been audited but no significant findings have noted.

The attached Report consists of four parts, namely: Part I - Audited Financial Statements; Part II - Audit Observations and Recommendations, which were discussed with concerned Management officials and staff during the exit conference held on April 1, 2022 ; Part III - Status of Implementation of Prior Years' Audit Recommendations; and Part IV - Annexes.

Our audit was conducted in accordance with generally accepted state auditing standards and we believe that it provides reasonable basis for the results of the audit.


ATTY. ELEANOR V. ECHANO
State Auditor IV
Supervising Auditor

EXECUTIVE SUMMARY

I. Introduction

The City Government of Naga (CGN) was created by the Senate and the House of Representatives through the enactment of Republic Act No. 305 which took effect on June 18, 1948. Sixty-nine years ago, Naga officially became a chartered city from being a municipality in the Province of Camarines Sur. It is an independent component city in the Bicol Region that has evolved into a vibrant city with a flourishing economy as evident by the numerous business establishments setting up every year. It has an area of 84.48 sq. km. or 32.62 sq. mi. with a present population reported at 196,003 per 2015 census and records of the Philippine Statistics Authority, with 77,784 registered voters and a labor force of 60,772 people.

The CGN envisions to be the recognized model of: a) good governance and responsible citizenry that asserts and accepts their roles and responsibilities in nation-building; b) people-centered development anchored on quality and accessible services in health, education and other social services, especially for the marginalized and the vulnerable; and c) abiding faith that expresses itself in social solidarity and a culture of excellence flourishing in a city that is peaceful, safe and in accord with nature where cultural values are nurtured and religious diversity respected.

Audit Objectives and Scope of Audit

A Financial and Compliance Audit was conducted on the accounts and operation of the CGN for CY 2021 aimed to determine the reliability of financial statements and ascertain on a test basis the validity and propriety of transactions as well as its compliance with laws, rules and regulations. Likewise, a Project Evaluation on the aspects of operations, documentation and accounting of the Housing Settlement and Development program was conducted to evaluate the economy, efficiency and effectiveness of implementation of funded programs/projects/activities of the CGN with emphasis on the significant audit areas identified in our Engagement Letter dated October 28, 2021.

Furthermore, a review of the revenue generation system of the City Government of Naga was conducted aimed at determining the: a) collection efficiency in local tax administration; b) political will to enforce the mandates provided under RA No. 7160; c) dependency and/or reliance mainly from the share of Internal Revenue (IRA); and d) effectiveness of investment placements of the CGN.

Operational Highlights

Some of the significant accomplishments of the CGN during the year are as follows:

- a) Construction of eight school buildings – a total of eight school buildings with a total cost of ₱ 94,438,075.92 located in various areas of Naga City which shall address the

needs of young Nagueños for access to education, in anticipation for a face-to face-learning delivery mode.

- b) Naga City's COVID-19 Response – Projects/Programs and Activities were implemented by Naga City to address the effects of the pandemic, particularly in local economy. Business Stimulus Program which granted 157 local business owners interest-free loan payable in 12 months was implemented to make them active partners in reviving the local economy and aided 551 employees. “Tabang Tugang for Displaced Workers” was likewise launched to provide interest-free loans payable in six months to 69 employees and Community Employment Program which aided 2,932 Nagueños. As regards vaccination strategies, a total of 80,140.00 Nagueños were verified vaccinated as of September 25, 2021. RT-PCR Laboratory, with a total cost of ₱9,916,770.00, was likewise constructed.

II. Financial Highlights

A. – Comparative Financial Position

Particulars	In Philippine Peso (₱)			% of Increase/ (Decrease)
	2021	2020	Increase/ (Decrease)	
Total Assets	5,558,517,214.76	5,536,429,754.93	22,087,459.83	0.4
Total Liabilities	673,805,428.70	718,795,774.34	(44,990,345.64)	(6.3)
Total Equity	4,884,711,786.06	4,817,633,980.59	67,077,805.47	1.4

B. – Results of Operations

Particulars	In Philippine Peso (₱)			% of Increase/ (Decrease)
	2021	2020	Increase/ (Decrease)	
Total Income	1,395,487,730.03	1,437,798,896.81	(42,311,166.78)	(2.9)
Total Expenses	1,318,076,921.09	1,346,648,141.33	(28,571,220.24)	(2.1)
Net Surplus	77,410,808.94	91,150,755.48	(13,739,946.54)	(15.1)

III. Independent Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion because accounting and property records of (a) Property, Plant and Equipment and (b) Inventory did not reconcile by ₱1,577,312,120.52 and ₱139,385,068.46, respectively.

IV. Significant Audit Observations and Recommendations

For the exceptions cited above, we recommended that the City Mayor:

- a) assign a personnel or team who shall take charge of the proper identification and documentation of properties recorded in the books of CGN;
- b) require the inventory committee to timely perform their duties or functions in conducting actual physical count of PPEs for a specified period of time, to facilitate proper accounting and reporting and correct classification of fixed properties;
- c) direct the reconciliation of records between the GSO and the Accounting Office to present accurate property records;
- d) strictly require the department heads to submit the RPCI per type of inventory and within the period required by Section 124 of the Manual to reconcile with the balances found in the financial statements and to prevent overstatement of inventory balance;
- e) direct the heads of concerned departments/offices to timely submit their respective SSIMs with complete documentation to GSO, for consolidation, to be submitted to CAO for necessary adjustments against inventory accounts; and
- f) revisit the development of computerized inventory system by the ITO and CPO to identify the causes of delays and implement necessary actions as soon as possible in order to effect improvements in the current inventory system where deficiencies were noted.

The Audit Team communicated the audit observations and recommendations with the CGN through the issuance of Audit Observation Memoranda (AOMs). These were discussed on April 1, 2022 with the concerned agency officials present during the exit conference conducted and the latter's comments were incorporated in the report, where appropriate. Likewise, significant audit observations on evaluation of projects and assessment of revenue system, together with the corresponding recommendations that need immediate attention and action, are presented as follows:

1. Deficiencies and irregularities in the planning and utilization of the Local Disaster Risk Reduction and Management Fund (LDRRMF) for COVID-19 Response totaling ₱52,900,616.88 in CY 2021 were noted.

We recommended that the City Mayor and the Sangguniang Panglunsod of Naga to:

- a) ensure that the NCDRRMC Resolutions on re-alignment and reversion of government funds be properly backed-up with enacted ordinances and documentary requirements to properly account the sources and destinations of funds, in compliance with RA No. 7160;
 - b) direct the NCDRRMO to monitor the donations received by CGN and ensure the timely and proper utilization thereof; and
 - c) require the concerned offices to submit the necessary consumption reports to the City Accounting Office to facilitate adjustments to the balance of Welfare Goods for Distribution account which were already distributed in CY 2021.
2. Local Development Fund (LDF) totaling ₱43,859,389.67 remained unutilized.

We recommended that the City Mayor:

- a) instruct the HSDO to expedite the collation of documents to pay the taxes due to the BIR, and to fast track the other necessary procedures relative to the transfer of titles to the City Government of Naga, and accordingly, to properly recognize in the books of CGN said transferred properties;
 - b) promptly implement the PPAs embodied in the 20 per cent LDF during the targeted implementation period and/or budget year, to ensure the timely delivery of benefits to the intended beneficiaries; and
 - c) direct the Local Development Council to conduct an in-depth planning and assessment on utilizing the unencumbered balances of LDF for priority PPAs.
3. Installation of a detailed and structured framework for the operations, documentation and accounting of Kaantabay sa Kauswagan (KsK) Program for CY 2021 was not prioritized by CGN.

We recommended that the City Mayor:

- a) direct the Housing Board to endorse and document the pricing and collection policies of the program;
- b) instruct the ITO to complete the software development and commence the implementation of the HSDO Billing & Receivables System, including the modification of ETRACS interface so that collections are encoded per site;
- c) require the CAO to create and maintain subsidiary ledgers per site, recording the collections and charging the corresponding disbursements therein;

- d) deliberate with HSDO and CAO the proper reconciliation of their records to facilitate recognition of pertinent receivables as well as derecognition of lands fully-paid and owned by beneficiaries but still in the books of the CGN;
- e) require the HSDO to maintain a complete, accurate and updated set of records available for audit, inquiry or any decision-making purposes; and
- f) coordinate with the Sangguniang Panlungsod for the enforcement of a policy framework of KsK program regarding its operation, accounting, documentation, collection and disbursements.

V. Summary of Total Suspensions, Disallowances and Charges as of Year-End

The status of suspensions, disallowances and charges as of December 31, 2021 is summarized as follows:

Particulars	Balance as of January 1, 2021 (P)	CY 2021 (P)		Balance as of December 31, 2021 (P)
		Issued	Settled	
Suspensions	39,905,177.05	0.00	0.00	39,905,177.05
Disallowances	1,990,965.41	0.00	0.00	1,990,965.41
Charges	0.00	0.00	0.00	0.00
Total	<u>41,896,142.46</u>	<u>0.00</u>	<u>0.00</u>	<u>41,896,142.46</u>

*Note: Joint Appeal dated June 29, 2018 on the ND No. 14-001-200(13) in the total amount of P1,754,756.00 was filed at COA RO V, Legazpi City

Most of the Notices of Suspension were comprised of unsubmitted Disbursement Vouchers and supporting documents since CY 2009. The Audit Team has not issued yet Notices of Disallowance due to on-going retrieval of the accounts and transmittal files.

VI. Status of Implementation of Prior Years' Audit Recommendations

Out of the 136 audit recommendations embodied in the previous years' Annual Audit Reports, 50 or 36 per cent was fully implemented, 69 or 51 per cent were partially implemented and 17 or 13 per cent was not implemented as of April 1, 2022, date of audit exit conference.

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Part I

**AUDITED FINANCIAL
STATEMENTS**



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

INDEPENDENT AUDITOR'S REPORT

Honorable NELSON S. LEGACION

Mayor
City of Naga

Qualified Opinion

We have audited the financial statements of the City Government of Naga, Province of Camarines Sur, which comprise the statement of financial position as at December 31, 2021, and the statement of financial performance, statement of changes in net assets/equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the City Government of Naga, Camarines Sur as at December 31, 2021, and its financial performance, its cash flows, and its comparison of budget and actual amounts for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Qualified Opinion

As discussed in Part II, Observations and Recommendations: accounting and property records of: (a) Property, Plant and Equipment and (b) Inventory did not reconcile by ₱1,577,312,120.52 and ₱139,385,068.46, respectively.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the agency in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Except for the matters described in the *Basis for Qualified Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PPSASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


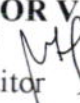
Those charged with governance are responsible for overseeing the LGU's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

COMMISSION ON AUDIT

By:


ATTY. ELEANOR V. ECHANO
State Auditor IV 
Supervising Auditor

12 April 2022

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 136 audit recommendations embodied in the previous years' Annual Audit Reports, 50 or 36 per cent was fully implemented, 69 or 51 per cent were partially implemented and 17 or 13 per cent was not implemented as of April 1, 2022, date of audit exit conference.

Observations and Recommendations	Ref.	Status of Implementation	Reason for Partial/Non-Implementation	Management Action
<p>1. Cash in Bank – Local Currency, Current Account (LCCA) and Cash in Bank – Local Currency, Time Deposit (LCTD) totaling ₱1.10 billion varied with the confirmed bank balances totaling ₱1.18 billion or a difference by net amount of ₱74.41 million as of December 31, 2020, contrary to Sec. 74 of PD No. 1445, thus, the accuracy of Cash account balances in the financial statements at year end cannot be relied upon.</p> <p>We recommended that the City Mayor:</p> <p>1) strictly require the City Accountant (CA) to prepare bank reconciliation statements in the prescribed time for all funds (current and time deposit accounts) of the CGN;</p> <p>2) exercise LGU's authority granted under Sections 74 and 111 of PD No. 1445 until they are able to prepare and submit bank reconciliation statements for all funds to the COA Audit Office concerned; and</p>	<p>AAR 2020 Page 61; AAR 2019 Page 51</p>	<p>Partially Implemented</p> <p>Fully Implemented</p>	<p>Restated in the part II of this Report.</p> <p>Some Bank reconciliation statements for are still not submitted on time.</p>	<p>A memo dated September 21, 2020 was already issued by the City Mayor to Mr. Jose Marie B. Ojeda, Accountant IV to ensure receipt of bank statements and the required reconciliation will be done on a monthly basis.</p> <p>The cash discrepancies noted between ledger and cashbook, amounting to ₱23,995 was recorded in the Trust Fund Books in February 2021 by</p>