



**Republic of the Philippines  
COMMISSION ON AUDIT  
Commonwealth Avenue, Quezon City**

# **ANNUAL AUDIT REPORT**

**on the**

# **CITY OF NAGA**

**For the Year Ended December 31, 2016**

## EXECUTIVE SUMMARY

### 1. Introduction

The City Government of Naga (CGN) was created through the enactment of Republic Act (RA) No. 305 which took effect on June 18, 1948, sponsored by Representative Juan Q. Miranda 68 years ago. It has an area of 84.48 sq. km. or 32.62 sq. mi. with a population reported at 196,003 per 2015 census and records of the Philippine Statistics Authority. The CGN is headed by Hon. John G. Bongat, who was elected for his third term as City Mayor. He is supported by 12 elected members of the Sangguniang Panglungsod and 27 Barangay Chairmen as well as 1,540 officials and staff.

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 and has attained a reputation for being a model local government unit that pioneered innovations in local governance. This was attested to by more than 189 international, national and regional awards and individual recognitions. On November 2016, a Certificate of Recognition was awarded by the Secretary, Department of Interior and Local Government to the CGN symbolizing the city's commitment towards good local governance and for passing five (5) out of six (6) Local Governance Assessment Areas for CY 2016 namely: financial administration, social protection, business-friendliness and competitiveness, peace and order and environmental management.

#### Operational Highlights

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

- a) The City was awarded a Certificate of Recognition by the Secretary, Department of Interior and Local Government on November 2016, as a symbol on the city's commitment towards good local governance and for passing five out of six Local Governance Assessment Areas for CY 2016 namely: financial administration, social protection, business-friendliness and competitiveness, peace and order and environmental management;
- b) The City was recognized as the 2016 Top Performing City in the Oplan Tsekap of the Department of Health, a program that provides free consultation and medicine to the poorest of the poor;
- c) The Kaanatabay sa Kauswagan Program for the urban poor have reached to more than 9,000 housing program beneficiaries. And, the needs of 800 families belonging to the poorest of the poor in 14 barangays were addressed under the Ginhawang Nagaeño Program, a holistic program addressing the housing, sanitation, education, health, nutrition and livelihood needs of the program beneficiaries; and

- d) The programs and projects accomplished during the year totalled to at least ₱90.465 million comprised of construction/rehabilitation of road networks, drainage system, day care centers, covered courts, housing projects, infirmary/ birthing clinics and installation of traffic lights at the city's main road, among others.

#### Audit Objectives and Scope of Audit

A Financial and Compliance audit was conducted on the accounts and operations of all funds of the CGN for CY 2016 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 Value for Money audit was conducted to evaluate the economy, efficiency and effectiveness of implementation of selected programs/projects/activities of the CGN with emphasis on the significant audit areas identified by the Audit Team which were aligned with the Audit Thrusts and supplemental Audit Instructions for CY 2016 under unnumbered Memoranda issued on various dates by the Office of the Assistant Commissioner, Local Government Sector, Commission on Audit, Quezon City.

In addition, Special Audit was conducted on the implementation by the CGN of the program "Mainstreaming Migration and Development in the governance of local authorities in the Bicol Region" under the Joint Migration and Development Initiative No. 00084376 (JMIDI 2). This is a project which seeks to mainstream Migration and Development (M&D) issues in key local governments in the Bicol Region and actualize them through local projects and services benefitting the Overseas Filipino (OF) sector. Also, a Citizens Participatory Audit was conducted aimed to assess the sufficiency, propriety, and quality of the health services being provided by the health units to the constituents of the City of Naga considering the available fund and other resources using the standards/requirements issued by the Department of Health and the Local Government Units.

## 2. Financial Highlights

### 2.1 - Financial Position and Performance

Particulars	In Philippine Peso (₱)			% of Increase (Decrease)
	2016	2015	Increase/ (Decrease)	
<b>Financial Position</b>				
Total Assets	4,043,136,778.89	2,620,737,141.94	1,422,399,636.95	54.27
Total liabilities	594,700,281.95	602,594,833.71	(7,894,551.76)	(1.31)
Total Equity	3,448,436,496.94	2,018,142,308.23	1,430,294,188.71	70.87

<b>Financial Performance</b>				
Total Income	1,068,043,766.16	993,066,120.62	74,977,645.54	7.55
Total Expenses	882,109,706.53	740,051,478.82	142,058,227.71	19.20
Net Surplus	185,934,059.63	253,014,641.80	(67,080,582.17)	(26.51)

## 2.2 - Sources and Application of Funds

Particulars	In Philippine Peso (P)			% of Increase (Decrease)
	2016	2015	Increase/ (Decrease)	
<b>General Fund</b>				
Allotments	1,046,007,640.47	926,816,604.32	119,191,036.15	12.86
Obligations	921,727,673.45	872,165,014.50	49,562,658.95	5.68
Balance	124,279,967.02	54,651,589.83	69,628,377.20	127.40
<b>Special Education Fund</b>				
Allotments	80,500,000.00	81,500,000.00	(1,000,000.00)	(1.23)
Obligations	77,894,418.32	75,446,990.98	2,447,427.34	3.24
Balance	2,605,581.68	6,053,009.02	(3,447,427.34)	(56.95)
<b>Amounts Transferred from/to NGAs, NGOs and POs</b>				
Transferred to/ from	70,981,192.11	41,042,061.79	29,939,130.32	72.95

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

The Auditor rendered a qualified opinion on the fairness of presentation of the consolidated financial statements of the CGN as of December 31, 2016 due to the possible effects of the following deficiencies on the balances of some accounts: a) a discrepancy of P128 million between the balances of the Property, Plant and Equipment (PPE) of P3.328 billion per books and the balance per Property Records totalling P3.200 billion cannot be ascertained due to the non-completion by Management of its annual physical inventory of PPEs; b) the correctness, validity and existence of the recorded Inventories totalling P41.734 million cannot be ascertained due to absence of actual physical inventory and non-maintenance of adequate records, particularly supplies ledger cards; and c) Assets and Government Equity accounts are understated due to the non-recording of 68,881 square meters parcels of lots with an estimated zonal valuation of P55.105 million.

## 4. Significant Audit Observations and Recommendations

For the exceptions cited above, we recommended that Management: 1) conduct complete physical count of all the Property, Plant and Equipment for all funds of the City and reconcile records with the results of the actual physical count; 2) conduct actual physical

count inventories of all funds held in stock and under the custody of different department/offices and reconcile accounting records with the results of actual physical count; 3) conduct reconciliation of records of cash and equivalents per book and bank records and effect necessary adjustments; 4) require the immediate liquidations of all outstanding cash advances from concerned Accountable Officers, otherwise impose applicable sanctions; 5) properly record or disclose adequately in the financial statements the unrecorded land in the possession of the CGN.

The Audit Team communicated the audit observations and recommendations with the Auditee through the issuance of Audit Observation Memoranda (AOMs). These were discussed with the agency officials during the exit conference conducted on April 11, 2017 and the latter's comments were incorporated in the report, where appropriate.

Likewise, other significant audit observations together with the corresponding recommendations that need immediate attention and action are presented below.

- 1) The City of Naga failed to utilize and implement P55.665 million or 59 per cent of the programs and projects out of the P95.002 million appropriations for the 20 per cent Local Development Fund (LDF) depriving the intended beneficiaries on the consequential socio-economic and environmental benefits that could have been derived therefrom.

We recommended that Management meticulously and judiciously consider projects before its inclusion in the Local Development Plan and Annual Investment Program and promptly implement programs/project/activities embodied in the 20 per cent LDF in order to achieve the desirable socio-economic and environmental benefits as prescribed under DILG-DBM Joint Memorandum Circular 2011-1 dated April 13, 2011.

- 2) The balance of Due from Local Government Units account totalling P6,752,550.64 as of December 31, 2016, of which amount P5,025,823.45 or 74.43 per cent aged from one year to more than three years remained not liquidated and not reconciled with the Barangay records at the end of the year

We recommended that Management require: a) the personnel in charge of City accounts and Barangay accounts to maintain subsidiary ledger for each barangay/fund transfer with sufficient details and regularly reconcile their respective records; b) the City Accounting Office reconcile their records of fund transfers and its liquidations to determine the correct balance at a certain time; and c) inclusion in the MOA of Fund Transfer all the essential provisions provided in the general guidelines and duties and responsibilities of Implementing Agency under COA Circular 94-013, particularly the required period of liquidation of the funds transferred and return of excess/unutilized amount.

- 3) Several pads of Accountable Forms (General Form No. 51-C) issued to accountable officers had missing copies/pages/leaves and the loss of original copy/page was not

circularized to concerned government agencies, prevention against the possible fraudulent use was not ensured.

We recommended that the City Mayor require: a) the GSO to examine carefully each book or pad of accountable forms upon receipt from the National Printing Office and segregate any book or pad found to contain defects, such as incorrect series of numbers, or missing leaves or sheets, etc. and submit it to the COA Unit Auditor together with a statement of the defects or deficiencies noted during the time of their inspection of accountable forms; b) the Accountable/Collecting Officers to immediately report to City officials concerned, after taking notice, the missing original copy of any serial number of accountable forms under their custody prior to the loss; c) the Accountable/Collecting Officers to present to the COA Audit Team for outright cancellation of the original copy, if duplicate and/or triplicate copy of any serial number of accountable form are the ones missing; and d) the immediate issuance of a circular notice of such loss for the information and guidance of all concerned to prevent against the possible fraudulent use of such accountable forms.

#### 5. Summary of Total Suspensions, Disallowances and Charges as of Year End

Particulars	Balance as of January 1, 2016	CY 2016		Balance as of December 31, 2016
		Issued	Settled	
Suspensions	₱ 39,957,977.05	₱ 0.00	₱ 0.00	₱ 39,957,977.05
Disallowances	6,546,913.26	0.00	0.00	6,546,913.26
Charges	0.00	0.00	0.00	0.00
<b>Totals</b>	<b>₱ 46,504,890.31</b>	<b>₱ 0.00</b>	<b>₱ 0.00</b>	<b>₱ 46,504,890.31</b>

The total disallowances of ₱6,546,913.26 included ₱4,467,380.81 which were lifted already by the COA Regional Office No. V under Decision No. 2015-L-011 dated July 2, 2015 but still subject to the automatic review of the COA Commission Proper, hence not yet finally settled. Notice of suspension, notice of disallowance or notice of charge for the post audited transactions, on a test basis, for CY 2016 shall be issued, if necessary.

#### 6. Status of Implementation of Prior Years' Audit Recommendations

Of the 52 audit recommendations embodied in the previous years' Annual Audit Reports, 17 were fully implemented, 29 were partially implemented and 6 were not implemented as of December 31, 2016.