



**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, 2018**



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. V  
Rawis, Legazpi City

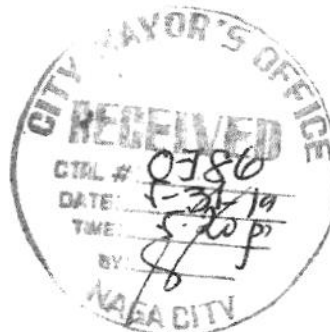
Telefax Nos.: 482-0547; 482-0548

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**OFFICE OF THE REGIONAL DIRECTOR**

April 30, 2019

**Hon. John G. Bongat**  
City Mayor  
Naga City



Dear Mayor Bongat:

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, 2018, 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.

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 Province for the year ended December 31, 2018.

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,



**ROLAND A. REY**  
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
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## **EXECUTIVE SUMMARY**

### **1. 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 flourishing economy as evidenced by the numerous business establishments setting up every year. It has an area of 84.48 sq. km. or 32.62 sq. mi. with present population reported at 196,003 per CY 2015 census and records of the Philippine Statistics Authority and with 77,784 registered voters and 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.

Since 1988, CGN has built a reputation for being a model local government unit that pioneered innovations in local governance. This is attested to by more than 189 international, national and regional awards and individual recognition. Among the most important and recent awards received are: a) the stature of the CGN as a PCW-recognized Local Learning Hub on GAD multi-sectoral and community-based programs to address gender-based violence; b) 1st Place Economic Dynamism, Component Cities Category on Government Efficiency given by the National Competitiveness Council; and c) Plaque of Commendation for bringing honor to the Bicol Region as the 2nd Most Competitive Independent City in the Philippines in 2018, given by the Bicol Regional Development Council Legaspi City on September 7, 2018.

### **Operational Highlights**

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

- a) Construction of Sanitary Landfill - Four major separate projects for the completion of the Sanitary Landfill are expected to be completed in July 2019;
- b) Naga River Rehabilitation Program - Created under SP Ordinance No. 2013-053 has gained recognition highlighted by the DPWH construction of river revetments starting from Tabuco and extending until San Felipe and the joint

project of dredging the Naga River with the Memorandum of Agreement with the DPWH and the LGU.

- c) Rehabilitation of Naga City Abattoir - The Naga City Abattoir has now been classified as "AA" category by the National Meat Inspection Service (NMIS). The rehabilitation of its facilities fit for said category includes the installation of waste water treatment, provision/upgrading of its equipment and expansion of the building. It is now an accredited Assessment Center by the TESDA.
- d) Naga City Community College - Created under SP Ordinance No. 2015-011, has also been gaining recognition producing graduates with an average of 90% PRC passing rate, higher than the national average of 70%. Likewise, the College has managed to obtain a 78.57% passing rate for its midwifery course during the year.

#### **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 2018 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 Projects Evaluation 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 2018 and prior years under unnumbered Memoranda issued on various dates by the Office of the Assistant Commissioner, Local Government Sector, Commission on Audit, Quezon City.

A Revenue Audit was also conducted on the financial operations of the Naga City Hospital, a special account in the General Fund and the Real Property Tax System to determine a) whether revenues are correctly assessed, collected and accounted; b) assess revenue trends; and c) evaluate causes of revenue losses, if any.

In addition, a Performance Audit was conducted on the stature of Naga City as PCW-recognized Local Learning Hub on GAD multi-sectoral and community-based programs to address gender-based violence, namely, the Bantay Familia Program, Barangay GROW Negosyo Program and Breastfeeding Program in compliance with the unnumbered Memorandum dated July 31, 2018 issued by the Assistant Commissioner, Chair, Technical Working Group, COA GAD Focal Point System, Commission on Audit, Commonwealth Avenue, Quezon City. The performance audit covered a) financial and compliance audit of funds pertaining to the specific GAD program which included evaluation of agency's compliance with existing laws and regulation on GAD including the mandatory appropriation for GAD; and b) value for money audit on the GAD activities which included the determination of the economy, efficiency and effectiveness of the agency's policies, programs and activities in addressing gender issues.

## 2. Financial Highlights

### 2.1 - Financial Position and Performance

Particulars	In Philippine Peso (₱)			% of Increase (Decrease)
	2018	2017	Increase/ (Decrease)	
Financial Position				
Total Assets	5,074,372,258.73	4,675,433,514.79	398,938,743.94	8.53
Total Liabilities	593,892,669.57	632,030,230.89	( 38,137,561.32)	( 6.03 )
Total Equity	4,339,354,828.36	4,043,403,283.90	295,951,544.46	7.32
Financial Performance				
Total Income	1,266,642,858.43	1,205,175,645.52	61,467,212.91	5.10
Total Expenses	993,385,543.32	953,988,993.21	39,396,550.11	4.13
Net Surplus	208,358,162.23	251,186,652.31	( 42,828,490.08)	( 17.05)

### 2.2 - Sources and Application of Funds

Particulars	In Philippine Peso (₱)			% of
	2018	2017	Increase/ (Decrease)	Increase (Decrease)
General Fund				
Allotments	1,459,500,587.75	1,446,897,272.27	(12,603,315.48)	(0.87)
Obligations	1,219,331,100.50	1,195,479,065.63	23,852,034.87	2.00
Balance	240,169,487.25	251,418,206.63	11,248,719.38	(4.40)
Special Education Fund				
Allotments	167,303,484.86	138,000,000.00	29,303,484.86	21.23
Obligations	161,036,659.20	121,956,522.12	39,080,137.08	32.04
Balance	6,266,852.66	16,043,477.88	9,776,625.22	(60.94)
Amounts Transferred from/to NGAs, NGOs and POs				
Transferred to / from	68,715,503.22	73,053,481.60	4,337,978.38	(5.94)

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

The Auditor rendered a qualified opinion on the basis of the LGUs understatement of cash in bank accounts totalling ₱1.18 billion by ₱21.63 million when compared with the confirmed bank balances of ₱1.21 billion as at year end; and the overstatement by ₱35.72 million of the Inventory accounts and the discrepancy amounting to ₱3.23 billion between the accounting and property records of Property, Plant and Equipment existed as of December 31, 2018 due to incomplete actual physical which constitute a departure from IPSASs. The LGUs records indicate that had Management stated the cash in bank correctly and the inventories consumed were recognized as



expense account accordingly, the government equity would have been reduced by P14.09 million.

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

For the exceptions cited above, we recommended that Management: 1) conduct reconciliation of records of cash in banks per book and bank records and effect necessary adjustments, as appropriate conduct complete reconciliation of all the Property, Plant and Equipment for all funds of the City after the results of actual physical count; 2) conduct actual physical count of all inventories for all funds on hand at the end of the year under the custody of different department/offices and reconcile results of actual physical count accounting records with the; and 3) conduct complete reconciliation of all the Property, Plant and Equipment for all funds of the City after the results of actual physical count.

The Audit Team communicated the audit observations and recommendations with the CGN through the issuance of Audit Observation Memoranda (AOMs). These were discussed with the concerned agency officials present during the exit conference conducted on April 12, 2019 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.

a) The risk of loss of funds utilized for the disbursements totalling at least P47.48 million, for the last three years alone, composed of the various additions to the structures built on a land whose possession and/or ownership is under litigation manifests the lack of judicious disposition of government funds, thus not ensuring the efficient, effective and economical government operations.

We recommended that Management judiciously utilize its available funds and resources and consider a contingency plan for the existing legal controversy, in the event that there is no more other favorable legal remedies that may be availed of by the CGN.

b) Lack of monitoring and inaction on the negative slippage of the three Sanitary Landfill projects at Barangay. San Isidro, Naga City with contract cost totalling P29.72 million intensified the delay of its completion ranging from 67 to 263 days, contrary to R.A. 9184 and P.D. 1870, thus deprived the constituents of the health and socio-economic benefits from the timely completion of the infrastructure projects.

We recommended that Management require the officials concerned to exert diligent efforts in monitoring the completion of infrastructure projects and observe proper computation of liquidated damages in case of breach of the contract agreement.

c) The Naga City Hospital has sustained an increasing losses for the last three consecutive years in the amount of P73.03 million due to various deficiencies noted in the management and financial operations system.

We recommend that Management conduct a comprehensive evaluation of the operations and financial system of the NCH and update its operations manual, if there is any, and institutionalize a clearly defined procedures and guidelines on the granting of medical health care assistance to qualified constituents to prevent further losses in its operations.

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

The status of suspensions, disallowances and charges as of December 31, 2018 is summarized as follows:

Particulars	Balance as of January 1, 2017 (P)	CY 2017		Balance as of December 31, 2018 (P)
		Issued (P)	Settled (P)	
Suspensions	39,957,977.05	0.00	0.00	39,957,977.05
Disallowances	6,546,913.26	0.00	4,467,380.81	* 2,079,532.45
Charges	0.00	0.00	0.00	0.00
<b>Totals</b>	<b>46,504,890.31</b>	<b>0.00</b>	<b>4,467,380.81</b>	<b>42,037,509.50</b>

\*Note: Joint Appeal dated June 29, 2018 on the ND No. 14-001-200 (13) in the total amount of P1,754,756 was filed at COA ROV, Legaspi City

However, it must be noted that the Audit Team shall issue anytime, if necessary, the notice of suspension, notice of disallowance or notice of charge for the post audited, on a test basis, journal entry/disbursement vouchers on the transactions of the CGN for CY 2018 and prior years.

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

Out of the 46 audit recommendations embodied in the previous years' Annual Audit Reports, 20 or 44% was fully implemented, 25 or 54% were partially implemented and one or 2% was not implemented as of April 11, 2019, 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 JOHN G. BONGAT**

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, 2018, 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 matter 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, 2018, 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**

The LGUs Cash-in-Bank accounts totaling ₱1.18 billion is understated by ₱21.63 million when compared with the confirmed bank balances of ₱1.21 billion as at year end; and the overstatement by ₱35.72 million of the Inventory accounts and the discrepancy amounting to ₱3.23 billion between the accounting and property records of Property, Plant and Equipment existed as of December 31, 2018 due to incomplete actual physical count constitute a departure from IPSASs. Had management stated its cash in bank correctly and the inventories consumed were recognized as expenses accordingly, the government equity would have been reduced by ₱14.088 million.

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 Responsibility 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 matter 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 the financial statements in accordance with IPSASs, 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.

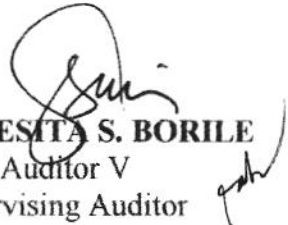
Those charged with governance are responsible for overseeing the LGUs financial reporting process.

### **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 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:

  
**TERESITA S. BORILE**  
State Auditor V  
Supervising Auditor

April 16, 2019