



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, 2020**



Republic of the Philippines  
**COMMISSION ON AUDIT**

Regional Office No. V

Rawis, Legazpi City

Landline: (052)482-0762

Mobile Nos: 09615321541 / 09777683433

Email: coaregion5@gmail.com

**OFFICE OF THE REGIONAL DIRECTOR**

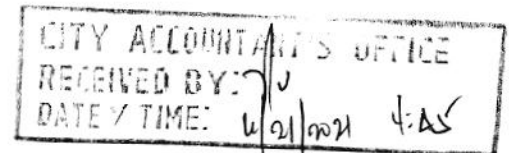
May 18, 2021

**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, 2020, 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 City for the year ended December 31, 2020.

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 that City.

Very truly yours,



ATTY. JOEL S. ESTOLATAN  
Regional Director

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  
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*Republic of the Philippines*  
**COMMISSION ON AUDIT**  
LGS C - Camarines Sur  
**Office of the Supervising Auditor**  
Provincial Satellite Auditing Office  
San Jose, Pili, Camarines Sur

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April 16, 2021

Memorandum for –

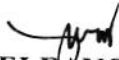
**ATTY. JOEL S. ESTOLATAN**  
Regional Director  
COA Regional Office No. V  
Rawis, Legazpi City

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, 2020.

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 2020.

The attached Report consists of four (4) 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 March 29, 2021 ; 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.

### II. Operational Highlights

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

- a) Construction of City Health II – the newly constructed City Health II with a total cost of ₱17,139,200.00 is located in Sta. Cruz, New Development Site which shall address the needs of Nagueños particularly those residing in far flung areas. This is expected to be operational by third quarter of CY 2021.
- b) Naga City's COVID-19, Typhoon and ASF Response – Various policies and protocols were issued by Management to prevent, if not, mitigate the damages caused by series of calamities that struck Naga City. An Incident Management Team was created as LGU's response to COVID-19 pandemic. "Libreng Sakay" "Hit Kitchen", "Market on Wheels", "Lend-A-Bike" and Relief Operation projects were spearheaded by Management as immediate response to the pressing concerns of Nagueños during Enhanced Community Quarantine. While battling COVID-19 pandemic, African Swine Fever (ASF) epidemic and thereafter three (3) typhoons hit Naga City. In response thereto, Management conducted ASF Depopulation Operations while providing ASF indemnity to affected hog raisers. On the other hand, clearing operations were conducted after the onslaught of the three series of typhoon. Under Ginhawang Nagueño Program, Management initiated the "Pandong" project which

provided the affected Nagueños with GI sheets and other construction materials for rebuilding their homes.

### **Audit Objectives and Scope of Audit**

A Financial and Compliance Audit was conducted on the accounts and operation of the CGN for CY 2020 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 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 08, 2020.

Likewise, 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); d) efficiency and effectiveness of the financial operations of local economic enterprise; and e) effectiveness of investment placements of the CGN.

## **III. Financial Highlights**

### **A. – Financial Position and Performance**

Particulars	In Philippine Peso (₱)			% of Increase/ (Decrease)
	2020	2019	Increase/ (Decrease)	
Financial Position				
Total Assets	5,536,429,754.93	5,487,676,038.34	48,753,716.59	0.89
Total Liabilities	718,795,774.34	836,785,738.82	(117,989,964.48)	(14.10)
Total Equity	4,817,633,980.59	4,650,890,299.52	166,743,681.07	3.59
Financial Performance				
Total Income	1,437,798,896.81	1,402,783,684.58	35,015,212.23	2.50
Total Expenses	1,346,648,141.33	1,218,821,222.75	127,826,918.58	10.49
Net Surplus	91,150,755.48	183,962,461.83	(92,811,706.35)	(50.45)

## B. – Sources and Application of Funds

Particulars	In Philippine Peso (₱)			% of Increase/ (Decrease)
	2020	2019	Increase/ (Decrease)	
General Fund				
Allotments	1,800,395,351.92	1,619,568,565.74	180,826,786.18	11
Obligations	1,378,759,960.55	1,448,224,500.47	(69,464,539.92)	(5)
Balance	421,635,391.37	171,344,065.27	250,291,326.10	146
Special Education Fund				
Allotments	178,846,124.77	158,259,237.42	20,586,887.35	13
Obligations	151,569,778.03	142,805,312.30	8,764,465.73	6
Balance	27,276,346.74	15,453,925.12	11,822,421.62	77
Amounts Transferred from/to NGAs, NGOs and POs				
Transferred from/to	52,836,922.91	100,860,014.52	(48,023,091.61)	(48)

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

The Auditor rendered a qualified opinion because: (a) The Special Education Tax (SET) Receivable and Deferred SET were understated by ₱114.83 million due to non-recording of receivable for CY 2020; (b) the balance of the inventory accounts in the amount of ₱96.36 million could not be relied upon due to deficiencies in the recording of issuances; and (c) accounting and property records of Property, Plant and Equipment did not reconcile by ₱1.54 billion.

## V. Significant Audit Observations and Recommendations

For the exceptions cited above, we recommended that Management:

- instruct the City Treasurer to prospectively furnish the City Accountant, at the beginning of the year, a duly certified list of the name of taxpayers and the amount due and collectible for the year;
- require the City Accountant to record the RPT Receivable and SET Receivable at the beginning of the year to avoid understatement of receivable accounts and misrepresentation of the financial statements, as a whole;
- examine the underlying cause of the significant balance of SET Receivables amounting to ₱125.66 million, further increased by the unrecorded receivables



in CY 2020 amounting to ₱114.83 million, and resolve for appropriate action or necessary reconciliation to properly reflect the correct balance;

- d) strictly require the department heads to submit the Report on the Physical Count of Inventory per type of inventory and within the period required by the Manual to reconcile with the balances found in the financial statements and to prevent overstatement of inventory balance;
- e) require the City Accountant to ensure that inventories distributed and consumed at year-end are properly recorded;
- f) coordinate with the Internal Audit System of the City to set up a sound internal control system for the proper custody and usage of inventories;
- g) d) monitor the development of inventory system being developed and ensure its implementation on the planned period on 3rd or 4th quarter of 2022;
- h) assign a personnel or team who shall be in charge of the proper identification and documentation of properties recorded in the books of CGN;
- i) 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; and
- j) direct the reconciliation of records between the GSD and the Accounting Office to present accurate property records.

The Audit Team communicated the audit observations and recommendations with the CGN through the issuance of Audit Observation Memoranda (AOMs). These were discussed March 29, 2021 with the concerned agency officials present during the exit conference conducted on 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 below:

1. A variance on the actual number of beneficiaries served viz-a-viz actual number of beneficiaries encoded in the Social Amelioration Card Uploading Program (SACUP) was noted due to the incomplete validation and updating of the encoded and profiled Social Amelioration Card (SAC) and Masterlist of the Emergency Subsidy Program (ESP) beneficiaries of the DSWD.

We recommended that Management:

- a) through the CSWDO, look/initiate effort to address the variance on the actual number of beneficiaries and those that are encoded in the system to complete



the validation of the beneficiaries and to account for the amount of ₱15.07 million representing the SAP released to the noted variance on beneficiaries served;

- b) assign personnel who will conduct the validation to cover the entire volume of beneficiaries and ensure that there is no duplication in the granting of benefits and ensure that all listed beneficiaries are eligible/qualified to receive the grant; and
- c) attach the necessary documentary requirements in the liquidation of the cash advance for the distribution of SAP fund as mentioned in the Circular.

2. Various deficiencies were noted on the utilization of the Bayanihan Grant to Cities and Municipalities (BGCM) Fund totaling ₱57.65 million in CY 2020.

We recommended that Management:

- a) require the GSD and personnel-in-charge in the Mayor's Office to submit additional information or proofs such as but not limited to: specific location of travel, name of persons conveyed or transported, and specific purpose; per travel to attest to the veracity that the charges of fuel, oil and lubricants are indeed COVID-related;
- b) direct the concerned offices to immediately submit the: (a) Mayor's or Business Permit; (b) Income Tax Returns or Business Tax Returns; and (c) Omnibus Sworn Statement in original copy for the procurement of rice and immediately submit copies of IDs for the handlers and haulers engaged during relief operations;
- c) require the GSD to submit the Consumption Reports of the reported inventory balance of ₱0.59 million to effect necessary adjustments to the inventory records;
- d) require the CAO to prepare the correcting entries to adjust the overstated amount in the Welfare Goods for Distribution (10402-020) account and the understated amount in the Welfare Goods Expense (50203-060) account; and
- e) direct the CBO and CAO to reconcile the discrepancy noted in the utilization report and update the CGN's website pursuant to the reporting guidelines of LBC No. 125.

3. Cash in Bank – Local Currency, Current Account (LCCA) and Cash in Bank – Local Currency, Time Deposit (LCTD) totaling ₱1.10 billion varies with the confirmed bank balances totaling ₱1.18 billion or a difference by net amount of ₱90.44 million as of December 31, 2020.

We recommended that the City Mayor:

- a) 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;
  - b) 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
  - c) require the CTO and CAO to reconcile and properly communicate to each other any discrepancies or changes made in the balances reported.
4. Programs, Projects and Activities totaling ₱132.82 million or 76.33% of the total current year LDF remained unobligated and thereby not implemented as of December 31, 2020.

We recommended that Management:

- a) direct the Local Development Council to meticulously and judiciously identify programs/projects/activities (PPAs) to be included in the Local Development Plan and Annual Investment Program which has to be supported by feasibility study/in-depth analysis by the office concerned to be used as the basis for appropriating funds indicating in details specific PPAs embodied therein as well as the responsibility center/implementing office and promptly implement programs/project/activities; and
  - b) promptly implement PPAs embodied in the 20% LDF during the targeted implementation period and/or budget year, to ensure the timely delivery of benefits to the intended beneficiaries.
5. Various deficiencies in the planning and utilization of the Local Disaster Risk Reduction and Management Fund (LDRRMF) totaling ₱62.79 million in CY 2020 were noted.

We recommended that Management:

- a) direct the NCDRRMO to annually prepare and submit to COA the LDRRMFIP which shall present the 30 per cent allocation for QRF in lump-sum, the allocation for disaster mitigation, prevention and preparedness with details as to projects and activities to be funded, and the list of projects and activities charged to the unexpended LDRRMF of previous years;
- b) 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 2020;

- c) refrain from implementing activities without corresponding appropriation which utilizes funds intended for other projects unless necessary documentations on the realignment of funds are available; and
- d) submit to the City Auditor's Office the original official receipt for the payment to the contractor amounting to ₱751,895.38 under check no. 71900479 disbursed through DV no. 2795 for the construction of drainage project.

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

The status of suspensions, disallowances and charges as of December 31, 2020 is summarized as follows:

Particulars	Balance as of January 1, 2020 (₱)	CY 2020 (₱)		Balance as of December 31, 2020 (₱)
		Issued	Settled	
Suspensions	39,957,977.05	0.00	52,800.00	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
<b>Total</b>	<b>41,948,942.46</b>	<b>0.00</b>	<b>52,800.00</b>	<b>41,896,142.46</b>

\*Note: Joint Appeal dated June 29, 2018 on the ND No. 14-001-200(13) in the total amount of ₱1,754,756.00 was filed at COA RO V, Legazpi 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 2020 and prior years.

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

Out of the 125 audit recommendations embodied in the previous years' Annual Audit Reports, 41 or 33 per cent was fully implemented, 66 or 53 per cent was partially implemented and 18 or 14 per cent was not implemented as of March 29, 2021, date of audit exit conference.