



**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) | |
| Financial Position | | | | |
| 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 |

| Financial Performance | | | | |
|------------------------------|------------------|----------------|-----------------|---------|
| 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) | |
| General Fund | | | | |
| 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 |
| Special Education Fund | | | | |
| 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) |
| Amounts Transferred from/to NGAs, NGOs and POs | | | | |
| 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