

EXECUTIVE SUMMARY

Introduction

The Municipality of Naga was created by virtue of Republic Act No. 4875 dated May 18, 1967. It is located east of Ipil, the Provincial Center of Zamboanga Sibugay and comprises approximately 24,630 hectares land areas, of this 99.56% considered as rural and the remaining 0.44% comprises the barangay Poblacion, of which 10.7170 hectares was used as commercial and 50.4554 hectares was used as residential lot. Its present population was reported at 38,547 according to the 2015 Census.

Audit objective

The objective of the audit is to (a) ascertain the fairness of presentation of the financial statements; (b) ascertain the propriety of financial transactions and compliance with prescribed rules and regulations; c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations. Performance audit was likewise conducted with the objective of informing management where improvement can be instituted in the field of revenues, expenditures and management of resources.

Audit methodology

The Commission has been implementing risk-based audit in the conduct of its audit services. However, to meet the evolving developments in public governance and fund management, the results-based approach in audit was incorporated.

Scope of audit

An audit was conducted on the accounts and operations of the Municipal Government of Naga for 2020. The audit consisted of review of operating procedures, evaluation of the LGU's programs and projects, interview of concerned government officials and employees, verification, reconciliation, confirmation, inspection, and analysis of accounts, and such other procedures considered necessary.

Financial Highlights

The financial condition and results of operation of the LGU as at December 31, 2020 with comparative figures for 2019 are summarized as follows:

Accounts	2020	2019	Increase/ Decrease
Assets	403,878,820.16	293,858,189.70	110,020,630.46
Liabilities	106,938,377.46	33,976,140.76	72,962,236.70
Equity	296,940,442.70	259,882,048.94	37,058,393.76
Revenue	162,559,514.63	143,207,523.77	19,351,990.86
Personnel Services	57,377,488.24	55,889,554.00	1,487,934.24
Maintenance and Other Operating Expenses	85,372,747.61	65,998,945.56	19,373,802.05

Accounts	2020	2019	Increase/ Decrease
Financial Expenses	1,713,062.60	384,505.04	1,328,557.56
Net Surplus/ (deficit)	40,335,546.67	61,874,027.09	(21,538,480.42)

Independent auditor's report on the Financial Statements

We rendered a qualified opinion on the fairness of the presentation of the FS for the year then ended, taking exception to the effects of the following:

1. Correctness of various Trust Fund accounts totaling ₱65.415 million could not be ascertained due to unreconciled ending balances with Subsidiary Ledgers (SL) and Schedules pertaining mostly to prior years' transactions, the vital information of which are not disclosed in the Financial Statements.
2. Inadequate records and absence of proper monitoring resulted to unreliable balance of Construction in Progress account with ending balance of ₱88,664,568.85, affecting its corresponding Property, Plant and Equipment account and subsequent recognition of expense.
3. Procurement of Drugs and Medicines and Medical, Dental and Laboratory Supplies amounting to P 1,787,865.75 and P 1,868,950.08, respectively were directly issued to end user and treated as outright understating the asset accounts while overstating the expense accounts reflected in the books.
4. The existence of the negative balances in the Liability accounts amounting to P1,883,204.34, as of December 31, 2020 runs counter to sound accounting principles and practices.

Significant audit observations and recommendations

In addition to the above-noted deficiencies, below are the significant audit observations and recommendations noted in the course of the audit:

1. Improper maintenance of loan records casts doubts on the accuracy of the loans payable balance and the propriety of the interest expenses and other related transactions, resulting to overstated liability and equity accounts by ₱583,378.36.
2. Real Property Tax and Special Education Tax as of December 31, 2020 is misstated due to: (a) non-setting up of discount account for advance and prompt payment; (b) improper recording of fine and penalties account and (c) non-deferral of income contrary to COA Circular No. 2015-009, resulting to improper presentation of accounts in the financial statements.
3. Improper use of accounts on the liquidation of Transfers from National Government Agencies totaling ₱26,639,782.17 with specific purpose, rendered the Financial Statements misleading and subject accounts not fairly presented.
4. Transfers of accountabilities was made without notice to the Commission preventing the conduct of the required timely cash examination contrary to the provisions set forth in Presidential Decree (PD) No. 1445 and other laws, rules and regulations.
5. Monthly Report of Accountability for Accountable Forms (RAAF) and other records was not accomplished in accordance with provisions under Presidential

Decree (PD) No. 1445 and sound management and fiscal administration laws, rules and regulations affecting the monitoring system on the movement and status of accountable forms in determining Accountable Officer's accountability.

6. Procurement of various supplies and materials totaling ₱3,553,942.86 were not sanctioned by the Bids and Awards Committee (BAC) contrary to Section 12.2 of Republic Act (RA) No. 9184.

Summary of total suspensions, disallowances and charges as of year-end

The reported audit suspensions, disallowances and charges of the LGU as at December 31, 2020 were as follows:

	Beginning Balance (As of 1/1/2020)	This Period January 1 to December 31, 2020		Ending Balance (As of 12/31/19)
		NS/ND/NC	NSSDC	
Notice of Suspension	4,161,038.08	-	-	4,161,038.08
Notice of Disallowance	2,000.00	-	-	2,000.00
Notice of Charge				
Total	4,163,038.08	-	-	4,163,038.08

Status of prior years' audit recommendations

Of the 34 audit recommendations in the prior year's Annual Audit Reports (AARs), 14 were fully implemented and 20 were unimplemented as of December 31, 2020.