

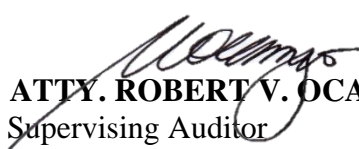


REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
**REGIONAL OFFICE NO. I**  
**CORPORATE GOVERNMENT SECTOR 7**  
**WATER DISTRICTS AND OTHER CGS STAND ALONE AGENCIES**  
City of San Fernando, La Union

**Office of the Auditor – Audit Team No. R1-03**

**MEMORANDUM**

**FOR : TERESITA A. PAJARA**  
Regional Director  
Commission on Audit  
Regional Office No. I

**THRU : ATTY. ROBERT V. OCAMPO, SR.**  
  
Supervising Auditor

**DATE : March 30, 2023**

In compliance with Section 2, Article IX-D of the Philippine Constitution and Section 43 (2) of Presidential Decree No. 1445, we conducted a financial and compliance audit on the accounts and operations of Balaoan Water District, Balaoan, La Union for the year ended December 31, 2022.

The audit was conducted to ascertain the fairness of presentation of the financial statements and the propriety of financial transactions. We conducted the audit in accordance with generally accepted auditing standards and we believe that it provides a reasonable basis for the results of the audit. The audit was likewise aimed at determining whether the desired objectives were attained in an effective, efficient and economical manner.

Our report consists of three parts. Part I is the Audited Financial Statements, Part II contains the Observations with the corresponding Recommendations, which were discussed with Management in an exit conference and Part III presents the Status of Implementation by the Auditee of Prior Years' Audit Recommendations.

There is a reason to believe that the financial statements are free of material misstatement/s and are prepared in accordance with applicable laws, rules, and regulations and in conformity with generally accepted accounting principles.

In our opinion, except for the effects of the matter described in the Basis of Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Balaoan Water District as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

We discussed our observations and their corresponding recommendations with the agency officials and personnel during the exit conference last March 27, 2023. We are pleased to note their favorable reactions to our recommendations.

We acknowledge the cooperation extended to us by the Balaoan Water District personnel, particularly those of the Accounting Section, through whose assistance and support the submission of this report was made possible.

  
**LUCELLE R. GACAYAN**  
State Auditor II  
OIC - Audit Team Leader



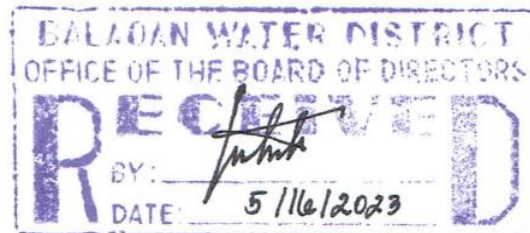
REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
**REGIONAL OFFICE NO. I**  
City of San Fernando, La Union

March 30, 2023

**HERMOGENES M. ANCHETA**  
Chairman of the Board of Directors

**ENGR. VICTOR R. OBILLO**  
General Manager

Both of Balaoan Water District  
Balaoan, La Union



Dear **Director Ancheta** and **General Manager Obillo**:

We are pleased to transmit the Annual Audit Report on the Balaoan Water District for the Calendar Year 2022, pursuant to 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 Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Balaoan Water District in view of the significance of the exceptions noted in audit as stated in the Independent Auditor's Report.

The audit observations together with the recommended courses of action, which were discussed with the concerned management officials and staff during the exit conference on March 27, 2023, are presented in detail in Part II of the report.

We request that the recommendations contained in the report be immediately implemented and we appreciate being informed of the action taken thereon within 60 days from receipt hereof pursuant to Section 97 of the General Provisions of the General Appropriations Act of Fiscal Year 2022 (Republic Act No. 11639), using the Agency Action Plan and Status of Implementation (AAPSI) Form to be submitted to the Audit Team.

We acknowledge the support and cooperation that you and your staff extended to the Audit Team, thus, facilitating the submission of this report.

Very truly yours,



**TERESITA A. PAJARA**  
Regional Director

*Copy furnished:*

*President of the Republic of the Philippines*  
*Vice-President of the Republic of the Philippines*  
*President of the Senate*  
*Speaker of the House of Representatives*  
*Chairperson-Senate Finance Committee*  
*Chairperson – Appropriations Committee*  
*Secretary of the Department of Budget and Management*  
*Governance Commission of the Government-Owned and Controlled Corporations*  
*Presidential Management Staff, Office of the President*  
*National Library (soft copy)*  
*University of the Philippines (IP) Law Center (soft copy)*  
*COA Commission Central Library (soft copy)*

**BALAOAN WATER DISTRICT**

Balaoan, La Union

**AGENCY ACTION PLAN and  
STATUS of IMPLEMENTATION  
Audit Observations and Recommendations  
For the Calendar Year 2022  
As of \_\_\_\_\_**

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for Partial/ Delay/ Non-Implementation, if applicable	Action Taken/ Action to be Taken
			Action Plan	Person/ Dept. Responsible	Target Implementation Date				
					From	To			

Agency Sign-off

\_\_\_\_\_  
Name and Position of Accountable Officer

\_\_\_\_\_  
Date

Note: Status of Implementation may either be (a) Fully Implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed



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

# **ANNUAL AUDIT REPORT**

**on the**

**BALAOAN WATER DISTRICT**  
**Balaoan, La Union**

**For the Year Ended December 31, 2022**

## EXECUTIVE SUMMARY

### A. Introduction

On February 4, 1978, the Sangguniang Bayan of Balaoan, La Union passed Resolution No. 02 forming the Balaoan Water District (BWD). Following its formation, the BWD acquired ownership and management of the entire system in accordance with Presidential Decree (PD) No. 198 known as the Provincial Water Utilities Act of 1973. On August 5, 1978, all the facilities of the defunct Balaoan Water System were officially turned over to the District.

On July 28, 1978, the Conditional Certificate of Conformance (CCC) No. 059 was awarded to the District which entitled the latter to all the rights and privileges authorized under PD No. 198. BWD was established for the purpose of acquiring, installing, improving, maintaining and operating the water supply, including the waste water collection, treatment and disposal facilities. To be able to do these functions, BWD obtained technical and financial assistance from the Local Water Utilities Administration (LWUA).

The District is composed of a Board of Directors (BOD) with 5 members, a General Manager (GM), assisted by 13 permanent employees. It is now serving 2,389 water and sewer concessionaires covering 31 barangays of this municipality.

### B. Financial Highlights

The following comparative financial highlights of the District are shown below:

Particulars	Amount (₱)		Increase/ (Decrease)	
	2022	2021	Amount	Percentage
Total Assets	46,445,216.58	49,503,284.88	(3,058,068.30)	(6.17)
Total Liabilities	46,960,476.05	49,057,419.20	(2,096,943.15)	(4.27)
Total Equity	(515,259.47)	445,865.68	(961,125.15)	(215.63)
Total Income	14,597,721.03	13,923,393.40	674,327.63	4.84
Total Expenses	15,681,295.48	14,778,299.39	902,996.09	6.11

Particulars	Amount (₱)		Increase/ (Decrease)	
	2022	Amount	Amount	Percentage
Budget	22,292,532.00	22,125,554.00	166,978.00	0.75
Actual Expenditures	15,681,295.48	14,778,299.39	902,996.09	6.11

### C. Operational Highlights

Results of comparative operational highlights of the District are shown below:

Key Result Area	Amount (₱)		Increase/ (Decrease)	
	2022	2021	Amount	Percentage
Billed Water Sales	13,742,208.47	13,228,846.97	513,361.50	3.88
Collection	13,859,785.49	13,343,429.78	516,355.71	3.87
Water Production (cu. m.)	496,552	465,226	31,326	6.73
No. of New Connections	174	115	59	51.30

### D. Scope of Audit

A comprehensive audit was conducted on the accounts and operations of BWD for the year ended December 31, 2022. The audit was conducted to ascertain the propriety of financial transactions and the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements in accordance with the Philippine Financial Reporting Standards (PFRS). It was also aimed at determining the compliance by the District with applicable laws, rules and regulations, and determine the extent of implementation of prior years' audit recommendations.

### E. Independent Auditor's Opinion

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of Balaoan Water District for the year ended December 31, 2022 due to the following:

1. Overstatement of the Construction in Progress – Infrastructure Assets (CIP-IA) and understatement of the Water Supply Systems by ₱16,381,257.05 due to non-reclassification of the CIP-IA account to Water Supply Systems account despite completion of projects;
2. Unreliable account balance of Loans Payable amounting to ₱42,604,149.12 due to unreconciled amount of ₱826,331.84 with LWUA records;
3. Non-recording of Interest Payable and Other Payable-Penalties amounting to ₱524,570.94 and ₱65,485.98, respectively, and
4. Overstatement of PPE, Depreciation Expense and Retained Earnings accounts due to the Semi-expendable properties recorded as PPE in the amount of ₱580,760.00.



## **F. Summary of Significant Observations and Recommendations**

In addition to the foregoing observations, discussed hereunder are the other significant audit observations and recommendations, to wit:

1. The Certificate of Final Acceptance of the Rehabilitation and Expansion project of the BWD project was signed and issued by the Head of the Procuring Entity (HOPE) on the same date of project completion, thereby prematurely releasing the Contractor and the Surety of their liability to answer for possible uncorrected discovered defects.

We recommended that Management strictly observe and enforce the one (1) year defects liability period such that the Certificate of Final Acceptance should only be issued after one year from the completion of the works of the project so as not to deny the government the chance to avail its remedies in cases of defects and third-party liability.

2. Extraordinary and Miscellaneous Expense (EME) reimbursements amounting to ₱98,134.75 of the District were paid without indicating the nature and purposes of the transactions, thereby, casting doubt on the regularity, propriety and validity of the transactions.

We recommended that Management ensure that all reimbursements of EME processed and paid by the District are supported with sufficient and relevant documents to establish and justify the regularity, propriety and validity of transactions.

3. Various procurement deficiencies were noted to be not in adherence with the pertinent provisions of the Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184 and other related procurement rules and regulations.

We recommended that Management send Request for Quotations (RFQs)/Request for Proposals (RFPs) to at least 3 prospective suppliers when resorting to Small Value Procurement (SVP) modality; indicate the Approved Budget for the Contracts (ABCs) of the items intended to be procured in the RFQs; and adopt and propose an internal guideline that establishes fees/cost of bidding documents that are consistent with the standard rates set forth in the quoted guidelines.

4. Taxes due from honoraria paid to the Board of Directors (BODs) of ₱163,416.00, and payment of expenses totaling ₱51,094.48 were not assessed and withheld by the District, depriving the government of the needed funds to defray its operating expenses.

We recommended that Management strictly comply with its duty as withholding agent of creditable taxes on compensation paid to its employees and on purchases of goods and services aimed at assisting the government to collect the needed funds which will be used to defray government operating expenses.

#### **G. Status of Implementation of Prior Years' Audit Recommendations**

Of the 23 prior years' audit recommendations, 5 were implemented and 18 were not implemented, which are reiterated in Part II of the report.

#### **H. Status of Settlement of Audit Suspensions, Disallowances and Charges**

For CY 2022, the District had no outstanding suspension, disallowance and charge.



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**PART I**

**AUDITED FINANCIAL STATEMENTS**



REPUBLIC OF THE PHILIPPINES  
**COMMISSION ON AUDIT**  
**REGIONAL OFFICE NO. I**  
CORPORATE GOVERNMENT SECTOR 7  
WATER DISTRICTS AND OTHER STAND ALONE AGENCIES  
City of San Fernando, La Union

## **INDEPENDENT AUDITOR'S REPORT**

**The Board of Directors**  
**The General Manager**  
Balaoan Water District  
Balaoan, La Union

### **Qualified Opinion**

We have audited the financial statements of Balaoan Water District which comprise the statement of financial position as at December 31, 2022, and the statement financial performance, statement of changes in equity and statement of cash flows 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 of Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Balaoan Water District as at December 31, 2022, its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

### **Basis for Qualified Opinion**

A qualified opinion was rendered on the fairness of the presentation of the financial statements of BWD for the year ended December 31, 2022 for the following reasons:

1. Overstatement of the Construction in Progress – Infrastructure Assets (CIP-IA) and understatement of the Water Supply Systems by ₱16,381,257.05 due to non-reclassification of the CIP-IA account to Water Supply Systems account despite completion of projects.
2. Unreliable account balance of Loans Payable amounting to ₱42,604,149.12 due to unreconciled amount of ₱826,331.84 with LWUA records;

3. Non-recording of Interest Payable and Other Payable-Penalties amounting to ₱524,570.94 and ₱65,485.98, respectively, and
4. Overstatement of PPE and Depreciation Expense accounts and understatement of adjustment to Retained Earnings account due to ₱580,760.00 Semi-expendable properties recorded as PPE.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). Our responsibilities under those standards are further described in the *Auditor's Responsibilities of 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 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 PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Those charged with governance are responsible for overseeing the District's financial reporting process.

### **Auditor's Responsibility**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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:

  
**ATTY. ROBERT V. OCAMPO, SR.**  
Supervising Auditor

March 30, 2023





**BALAOAN (LU) WATER DISTRICT**

**Viloria St., Brgy. Antonino**

**Balaoan, La Union**

Email address: balaoanwaterdistrict66@yahoo.com

Tel. No. (072) – 607-0360

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR  
FINANCIAL STATEMENTS**

The management of the Balaoan Water District, Balaoan, La Union is responsible for the preparation of the financial statement as at December 31, 2022, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

**HERMOGENES M. ANCHETA**

Chairman of the Board

February 13, 2023

**ALORNA L. CASTILLO**

Cashier B/Acting Accounting Processor

February 13, 2023

Date Signed

**ENGR. VICTOR R. OBILLO**

General Manager

February 13, 2023

Date Signed

## NOTES TO FINANCIAL STATEMENTS

### A. GENERAL

#### a. Historical Background

BWD was originally known as the Balaoan Waterworks System. The Municipal Government of Balaoan operated and managed the waterworks until the Water District was formed in 1978. On February 4, 1978, the Sangguniang Bayan of Balaoan passed Resolution No. 02 forming the BWD. Following its formation, the BWD acquired ownership and management of the entire system in accordance with PD No. 198 known as the Provincial Water Utilities Act of 1973. On August 5, 1978, all the facilities of the defunct Balaoan Waterworks System were officially turned to the District. The District is located at Brgy. Antonino, Balaoan, La Union.

BWD was established for the purpose of acquiring, installing, improving, maintaining and operating the water supply, including the wastewater collection, treatment and disposal facilities. To be able to perform these functions, BWD obtained technical and financial assistance from the LWUA.

On July 28, 1978, the CCC No. 059 was awarded to the District after it had complied with the LWUA minimum requirements for the certificate program. This certificate entitled the district to all the rights and privileges authorized under PD No. 198.

At present, BWD falls under Category D based on the Revised Local Water District Manual on Categorized, Re-categorized and Other Related Matters (LWW-MaCRO) effective September 1, 2012. It is now serving 2,389 water and sewer concessionaires covering 31 barangays of the Municipality of Balaoan.

#### b. Organizational Set-Up

The BOD is the policy-making body of the District. It is composed of five members appointed by the Mayor as provided in PD No. 198.

The following are the members of the Board as of December 31, 2022, with the respective sector they represent, namely:

<b>Names</b>	<b>Position</b>	<b>Sector</b>
Hermogenes M. Ancheta	Chairman	Professional
Joel O. Obar	Vice-Chairman	Business
Benjamin P. Onido	Secretary	Civic
Afra L. Monis	Treasurer	Educational
Felicisima N. Ordonio	Member	Women

## **B. ACCOUNTING POLICIES AND EXPLANATIONS NOTES**

### **1. Summary of Significant Accounting Policies**

#### **1.1 Basis of Financial Statements Presentation**

The Financial Statements (FSs) of the District have been prepared using historical cost basis and presented in Philippine peso, which is the District's functional and presentation currency. All values are rounded off to two decimal places, except when otherwise indicated.

For the year ended December 31, 2022, the District prepare its FS in accordance with generally accepted accounting principle in the Philippines and PFRS.

#### **1.2 Statement of Compliance**

FSs were prepared in compliance with PFRS, which includes statements named PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council. Accounts were classified to conform to the Revised Chart of Accounts (RCA) for Government Corporations prescribed under COA Circular No. 2020-002 dated January 28, 2020.

#### **1.3 Summary of Significant Accounting Policies**

The significant accounting policies that have been used in the preparation of the District's FSs are summarized as follows:

##### **1.3.1 Current versus Noncurrent Classification**

The District presents assets and liabilities in the statement of financial position based on current or noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period;

All other assets are classified as noncurrent.

A liability is current when it is:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;

- Expected to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The District classifies all other liabilities as noncurrent.

### **1.3.2 Cash and Cash Equivalents**

Cash includes cash on hand and in banks. Cash in bank earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

### **1.3.3 Inventories**

Inventories are valued at the lower of cost or net realizable value (NRV). Cost is determined using the moving average method.

Inventories are recognized as an expense when deployed for the utilization or consumption in the ordinary course of operations of the District.

### **1.3.4 Prepaid expenses**

Prepaid expenses are carried at cost less the amortized portion. These typically include prepayments for insurance, registration fees and guaranty deposits.

### **1.3.5 Property, Plant and Equipment**

#### *Recognition*

An item is recognized as property, plant, and equipment (PPE) if it meets the characteristics and recognition criteria as a PPE. The characteristics of PPE are as follows:

- tangible items;
- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity;
- the cost or fair value of the item can be measured reliably.

### *Measurement at Recognition*

PPE, except land, are stated at cost less accumulated depreciation and amortization and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of PPE comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the PPE to its working condition and location for its intended use, including capitalized borrowing costs incurred during the construction period.

Expenditures incurred after the PPE have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of PPE beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the related PPE.

### *Depreciation*

Depreciation of PPE commences once the PPE are available for use and are calculated on a straight-line basis over the estimated useful lives (EUL) of the PPE.

The EUL and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of PPE. There were no changes in the estimated useful lives of PPE in 2022.

Fully depreciated PPE are retained in the accounts until they are no longer in use and no further depreciation are charged to current operations.

When PPE is retired or otherwise disposed of, the cost and the related accumulated depreciation and accumulated impairment, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

## **1.4 Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the District and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

#### **1.4.1 Water Work System Fees**

This represents income derived from billed water sales.

#### **1.4.2 Other Business Income**

Income related to the bacteriological tests performed by the District's Water Testing Laboratory for other water districts and other commercial businesses.

#### **1.4.3 Fines and Penalties – Business Income**

This account comprises income derived from delayed payments of overdue billed water sales.

#### **1.4.4 Interest Income**

Interest income is recognized as it accrues, taking into account the effective yield of the asset

### **2. Cash and Cash Equivalents**

This account consists of the following:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Cash on Hand</i>		
Cash Collecting Officer	43,164.10	15,214.89
<i>Cash In Bank-Local Currency</i>		
Local Currency CA	388,244.71	5,034,918.52
Local Currency SA	674,823.12	1,083,782.13
Total Cash in Bank	1,063,067.83	6,118,700.65
<b>Total Cash and Cash Equivalents</b>	<b>1,106,231.93</b>	<b>6,133,915.54</b>

#### **Cash Collecting Officer**

It represents undeposited collections as of December 31, 2022, which were deposited on January 3, 2023. Deposit of collections is done twice a day by the District, one in the morning for yesterday's afternoon collections and another in the afternoon for the morning's collections.

### Cash in Bank

This account is composed of the following as presented below:

Particulars	2022	2021
Local Currency, CA - LBP EFPS	119,398.63	382,510.34
Local Currency, CA - RB	113,202.48	159,340.29
Local Currency, CA - LBP KFW	34,131.85	4,206,068.74
Local Currency, CA - LBP GF	121,511.75	286,999.15
Local Currency, SA - LBP Reserve	256,024.95	245,949.80
Local Currency, SA - LBP Customer Deposit	418,798.17	837,832.33
<b>Total</b>	<b>1,063,067.83</b>	<b>6,118,700.65</b>

### Local Currency, CA-LBP

The account is the former disbursement checking account of the District and is now solely for BIR purposes under the Electronic Filing and Payment System.

### Local Currency, Rang-ay Bank

Opened on May 17, 2010, it represents the disbursement checking account of the District up to the present.

### Local Currency, CA-LBP Reserve

The above represents the LWUA required compensating balance as security in case of non-payment to LWUA loan.

### Local Currency, CA-LBP Customers Deposit

The above consists of two months deposits of concessionaires.

### Local Currency, CA - LBP Special Project

This account represents financial assistance for the improvement and expansion of Water supply system of BWD.

## 3. Receivables

Particulars	2022	2021
<i>Loans and Receivables</i>		
Accounts receivables	861,010.05	907,305.75

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Allowance for impairment loss –AR	(214,670.78)	(214,670.78)
<i>Inter-Agency Receivables</i>		
Due from Government Corporation	59,783.90	64,089.45
<i>Other Receivables</i>		
Receivable Disallowances/Charges	160,797.60	162,249.60
Due from Officers and Employees	6,586.66	18,586.66
Other Receivables	54,098.50	54,098.50
<b>Total Receivables</b>	<b>927,605.93</b>	<b>991,659.18</b>

### **Accounts Receivable**

The account includes all amount due from customers from water sales including fines and penalties charged to past due water bills.

### **Allowance for Impairment – Accounts Receivable**

The amount is determined and computed based on percentages and aging of accounts receivable

### **Due from Government Corporation**

This is composed of unpaid materials and fittings borrowed by other Water Districts as presented below:

<b>Name of GOCC</b>	<b>2022</b>	<b>2021</b>
Sta. Lucia Water District	0.00	6,555.55
Tagudin Water District	59,783.90	57,533.90
<b>Total</b>	<b>59,783.90</b>	<b>64,089.45</b>

### **Receivable Disallowances/Charges**

This consists of disallowances as per CSB No. 999-001-00 dated September 8, 1999, representing Director's Fees and Remunerations.

<b>Names</b>	<b>2022</b>	<b>2021</b>
Amor Benigno	31,926.00	31,926.00
Darren Fernandez	14,542.00	14,542.00
Edgar Orallo	19,786.00	19,786.00
Jesus Ostrea Jr.	0.00	1,452.00
Presentacion Ostrea	32,743.00	32,743.00
Delfina Sebastian	31,258.60	31,258.60
Andrea Ledda	30,542.00	30,542.00
<b>Total</b>	<b>160,797.60</b>	<b>162,249.60</b>



### Due from Officers and Employees

This consists of receivables from employees and the GM of the District as shown below:

<b>Names</b>	<b>2022</b>	<b>2021</b>
GM V. Obillo/Marlinda Obille	6,586.66	18,586.66
<b>Total</b>	<b>6,586.66</b>	<b>18,586.66</b>

### Other Receivables

This account represents fittings/services connection materials sold to consumers on account and receivables from the former employee.

## 4. Inventories

The account consists of unissued supplies and material carried in the stock for use by the District in its operations.

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Inventory Held for Consumption</i>		
Accountable Forms, Plates and Stickers Inventory	38,408.04	115,361.28
<i>Inventory Held for Distribution</i>		
Chemical and Filtering Material Inventory	155,520.49	322,942.14
<b>Total Inventories</b>	<b>193,928.53</b>	<b>438,303.42</b>

## 5. Other Assets

This account is composed of the following:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Prepayments		
Prepaid Rent	4,150.00	4,150.00
Other Prepayments	9,539.33	9,498.44
<b>Total Other Assets</b>	<b>13,689.33</b>	<b>13,648.44</b>

## 6. Property, Plant and Equipment

This account includes assets of the District that are used or are expected to be used in the normal operations and have expected lives of more than one year.

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Land</i>		
Land	284,500.00	199,500.00
<i>Building and Other Structure</i>		
Buildings	2,199,718.00	2,199,718.00
Accumulated Depreciation – Buildings	(104,486.70)	(62,692.02)
Other Structures	1,404,819.90	1,404,819.90
Accumulated Depreciation – Other Structures	(322,675.55)	(255,946.08)
<i>Infrastructure Assets</i>		
Water Supply Systems	48,264,483.54	47,003,529.22
Accumulated Depreciation – Water Supply	(24,378,195.17)	(21,988,139.72)
<i>Machineries and Equipment</i>		
Office Equipment	49,130.50	49,130.50
Accumulated Depreciation – Office Equipment	(44,840.56)	(42,931.00)
<i>Information and Communication</i>		
Technical Equipment	411,873.00	411,873.00
Accumulated Depreciation – Information and Communication Technical Equipment	(363,198.80)	(340,202.96)
Other Machineries and Equipment	429,393.60	429,393.60
Accumulated Depreciation – Other Machineries and Equipment	(318,573.22)	(279,853.24)
Communication Equipment	6,600.00	6,600.00
Accumulated Depreciation - Communication Equipment	(6,237.00)	(6,237.00)
<i>Furniture, Fixture and Books</i>		
Furniture and Fixtures	426,525.42	426,525.42
Accumulation Depreciation Furniture and Fixtures	(281,746.43)	(241,157.44)
<i>Transportation Equipment</i>		
Motor Vehicles	152,400.00	152,400.00
Accumulated Depreciation - Motor Vehicles	(80,063.30)	(62,944.44)
Other Transportation Equipment	570,000.00	570,000.00
Accumulated Depreciation - Other Transportation Equipment	(535,800.00)	(535,800.00)
<b>Total</b>	<b>27,763,627.23</b>	<b>29,037,585.74</b>

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Construction-in-Progress		
Construction in Progress – Infrastructure	16,381,257.05	12,829,295.98
<b>Total Property, Plant and Equipment</b>	<b>44,144,884.28</b>	<b>41,866,881.72</b>

### **Construction Work in Progress**

This account represents the well drilling and on-going expansion project at Brgy. Calliat, Balaoan, La Union.

### **7. Other Assets**

This account is composed of fully depreciated assets that are ready for disposal.

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Other Assets	58,876.58	58,876.58
<b>Total Other Assets</b>	<b>58,876.58</b>	<b>58,876.58</b>

### **8. Financial Liabilities**

This account is composed of Accounts Payable, Loans Payable and Due to officers and employees.

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Accounts Payable	385,414.73	0.00
Loans Payable – Current	1,407,017.00	1,340,677.00
Due to Officers and Employees	735,394.00	79,200.00
<b>Total</b>	<b>2,527,825.73</b>	<b>1,419,877.00</b>

#### **Accounts Payable**

This account represents liabilities of the district with suppliers and private entities.

#### **Due to Officers and Employees**

This account sets up the liability account of the District to the members of the BOD representing the approved Performance Based Bonus (PBB) for the Year 2017 as per EO 65.

## 9. Inter-Agency Payables

This account consists of the following:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Due to BIR	119,389.88	370,688.90
Due to GSIS	139,596.62	156,601.69
Due to Pag-ibig	14,308.29	14,331.05
Due to Philhealth	8,385.91	4,289.82
Due to NGAs	113,733.34	132,633.34
Due to Other Government Corporations	55,964.96	15,605.45
<b>Total Inter-Agency Payables</b>	<b>451,379.00</b>	<b>694,150.25</b>

### **Due to BIR**

This includes taxes withheld from salaries, government purchases of goods and services, government work contracts and franchises which are due for remittance.

### **Due to GSIS**

This includes GSIS premiums and loans of employees which were withheld and due for remittance to GSIS.

### **Due to Pag-ibig**

This includes Pag-ibig employees' share which were withheld and due for remittance to Pag-ibig.

### **Due to PhilHealth**

This includes PhilHealth employees' share which were withheld and paid due for remittance to PhilHealth.

### **Due to NGAs**

This represents the liability account of the District with COA on audit fees for CYs 2018 to 2019.

### **Due to Other Government Corporations**

This account includes unpaid accounts from other Water Districts for service connection materials.

#### 10. Trust Liabilities

This is composed of the following:

Particulars	2022	2021
Trust Liabilities	1,363,432.79	1,256,616.69
Guaranty/Security Deposits Payable	93,622.84	1,082,554.78
<b>Total Trust Liabilities</b>	<b>1,457,055.63</b>	<b>2,339,171.47</b>

#### Trust Liabilities

This account represents deposit made by consumers before the installation of any service connections as security for non-payment of future water bills computed based on 2 months minimum water charges.

#### Guaranty/Security Deposits Payable

This account represents retention fees withheld to guarantee the performance of a contract and refundable upon completion of work.

#### 11. Other Payable

This account represents liabilities of the district with suppliers and private entities which was inadvertently charged to such account but then correctly reclassified to Accounts Payable.

Particulars	2022	2021
<b>Other Payables</b>	<b>-</b>	<b>96,735.73</b>

#### 12. Financial Liabilities

It consists of Loans Payable – Domestic of the District.

Loan Account No.	Particulars	Amount
3 – 590	Construction of Water District level III which includes the Drilling of 1 test/production well at Brgy. Bulbulala, Balaoan, La Union.	501,450.92
9 – 0357	Formerly a Non – LWUA Initiated Fund (NLIF) – PFS which is originally a grant and later was classified as ICG Soft loan at 2% per annum as per LWUA Board of Trustee's Resolution No. 001 series 2012.	3,737,255.00

<b>Loan Account No.</b>	<b>Particulars</b>	<b>Amount</b>
9 – 0607	Financial assistance under the Salintubig program for water supply development project consisting of 50% loan and 50% grant effective February 2016.	2,350,861.00
4 – 2689	Financial assistance for water supply improvement and expansion project under the Third German assisted Provincial Towns Water Supply and Sanitation Program III (KFW PTWSSP III).	20,177,717.43
4 – 2966	Financial assistance for the improvement and expansion of water supply	15,836,864.77
	<b>Total</b>	42,604,149.12
	<b>Less Current Portion</b>	1,407,017.00
	<b>Total Loans Payable - Noncurrent</b>	<b>41,197,132.12</b>

### 13. Deferred Credits

This account consists of Other Deferred Credits which pertains to the government grants received by the District.

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Deferred Credits		
<b>Other Deferred Credits</b>	<b>1,327,083.57</b>	<b>1,652,083.53</b>

#### Other Deferred Credits

This account pertains to the Salintubig Fund received by the District from LWUA which is amortized over the periods and in proportions in which depreciation expense on the constructed asset is recognized. The amortized portion of the grant is presented as Income from Grants and Donations in the Statement of Comprehensive Income.

### 14. Government Equity

This account comprises the contribution for the operation of the District from the Municipality of Balaoan and donated capital from other sources.

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Government Equity		
<b>Government Equity</b>	<b>157,905.75</b>	<b>157,905.75</b>

**15. Business Income**

This major revenue group is composed of the following income of the District:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Business Income</i>		
Waterworks Systems Fees	13,415,591.15	12,940,881.35
Other Business Income	485,885.65	365,193.87
Fines and penalties - Business Income	332,782.67	291,338.96
Miscellaneous Income	37,341.45	
Interest Income	1,120.15	979.26
Income from Grants and Donations In Cash	324,999.96	324,999.96
<b>Total Business Income</b>	<b>14,597,721.03</b>	<b>13,923,393.40</b>

**Waterworks System Fees**

This represents income from billed water sales.

**Other Business and Income**

The account arose from fees collected from installation of services and sale of materials and fittings for new connections and reconnections.

**Income from Grants and Donations in Cash**

Represents the amortized portion of the Other Deferred Credits account.

**16. Personnel Services**

The PS includes the following expenses as enumerated:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Salaries and Wages</i>		
Salaries and Wages-Regular	4,128,293.50	3,951,328.00
Salaries and Wages-Casual	-	8,550.00
<i>Other Compensations</i>		
Personnel Economic Relief Allowance	336,000.00	336,000.00
Representation Allowance	60,000.00	60,000.00
Transportation Allowance	60,000.00	60,000.00
Clothing/Uniform Allowance	84,000.00	84,000.00

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Honoraria	178,416.00	194,144.00
Overtime and Night Pay	28,001.02	40,482.61
Cash Gift	70,000.00	70,000.00
<i>Personnel Benefit Contributions</i>		
Retirement and Life Insurance Premium	491,433.29	470,905.98
Pag-ibig Contributions	16,800.00	16,800.00
Philhealth Contributions	77,099.28	53,512.88
Employees Compensation Insurance Premium	16,800.00	16,800.00
<i>Other Personnel Benefits</i>		
Other Personnel Benefits	1,058,109.00	1,027,160.54
<b>Total Personal Services</b>	<b>6,604,952.09</b>	<b>6,389,684.01</b>

#### **Other Personnel Benefits**

This includes SRI, PEI and other bonuses and monetization of leave credits received by employees.

#### **17. Maintenance and Other Operating Expenses (MOOE)**

Details of the major expenses are as follows:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Traveling Expenses</i>		
Traveling Expense-Local	27,600.00	34,800.00
<i>Training and Scholarship Expense</i>		
Training Expense	-	4,500.00
<i>Supplies And Materials Expenses</i>		
Office Supplies Expense	51,409.00	55,826.52
Accountable Form Expense	117,017.42	162,044.00
Fuel, Oil And Lubricants Expenses	142,144.17	142,367.25
<i>Utilities Expense</i>		
Electricity Expense	104,951.00	81,580.98
<i>Communication Expenses</i>		
Postage and Courier Services	3,960.00	2,950.00
Telephone Expenses	23,666.51	25,520.84
<i>Generation, Transmission and Distribution Expenses</i>		
Generation, Transmission and Distribution Expenses	3,320,383.88	2,163,243.52
<i>Confidential, Intelligence and Extraordinary Expenses</i>		



<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Extraordinary and Miscellaneous Expenses	238,763.21	466,865.90
<i>Professional Services</i>		
Legal Services	3,750.00	900.00
Auditing Services	17,200.00	38,640.00
Other Professional Services	22,500.00	16,000.00
<i>Repair and Maintenance</i>		
Repairs and Main-Buildings and Other Structure	-	23,530.00
Repairs and Main-Machinery and Equipment	21,500.00	41,328.00
Repairs and Main-Semi-Expendable Machinery and Equipment	-	10,500.00
Repairs and Main-Transportation Equipment	24,680.00	50,990.00
Repairs and Main-Infrastructure Assets	192,308.26	222,510.77
<i>Taxes, Insurance Premium and Other Fees</i>		
Taxes, Duties and Licenses	306,400.68	299,975.71
Fidelity Bond Premium	3,000.00	3,000.00
Insurance Expenses	4,619.83	4,703.79
<i>Other Maintenance and Operating Expenses</i>		
Advertising, Promotional and Marketing Expenses	26,200.00	23,174.00
Printing and Publication Expenses	1,175.00	2,514.00
Representation Expense	47,262.00	46,214.50
Rent/Lease Expenses	8,784.60	8,784.60
Member. Dues & Contribution to Organization	6,273.00	10,539.00
<b>Total MOOE</b>	<b>4,715,548.56</b>	<b>3,943,003.38</b>

## 18. Financial Expenses

This account is composed of the following:

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
<i>Financial Expenses</i>		
Bank Charges	100.00	750.00
Interest Expenses	1,740,782.00	1,845,351.00
<b>Total Financial Expense</b>	<b>1,740,882.00</b>	<b>1,846,101.00</b>

**19. Non-Cash Expenses**

This consists of Depreciation Expense and Impairment Loss-Loans and Receivables.

<b>Particulars</b>	<b>2022</b>	<b>2021</b>
Depreciation		
Buildings	41,794.68	41,794.68
Other Structure	66,729.47	66,729.12
Office Equipment	1,909.56	1,909.56
IT Equipment	22,995.84	22,827.42
Communication Equipment		
Machinery and Equipment	38,719.98	36,904.12
Furniture, Fixture and Books	17,118.86	5,706.32
Transportation Equipment	40,588.99	41,474.81
Other PPE	2,390,055.45	2,349,936.74
<b>Impairment Loss - Loans and Receivables</b>		
Impairment Loss-loans & Receivables	-	32,228.23
<b>Total Non-Cash Expenses</b>	<b>2,619,912.83</b>	<b>2,599,511.00</b>

**PART II**

**OBSERVATIONS  
AND RECOMMENDATIONS**

## OBSERVATIONS AND RECOMMENDATIONS

### A. FINANCIAL AUDIT

*Discrepancies in Loans Payable, Interest Payable and Other Payable - ₱193,764.00, ₱713,178.98 and ₱3,978,596.20, respectively*

1. The Loans Payable of the District amounted to ₱42,604,149.12. On other hand, the records of Local Water Utilities Administration (LWUA) reported ₱43,430,480.96, ₱524,570.94 and ₱65,485.98 representing the outstanding principal, interests and penalties, respectively, thus, a total discrepancy of ₱1,416,388.76, which is not in accord with International Accounting Standards (IAS) 1, thereby affecting the fair presentation of balances of payable accounts in the Financial Statements.

- 1.1 IAS 1 *Presentation of Financial Statements* sets out the overall requirements for financial statements. Item 1.5 of the standard requires that the financial statements must "present fairly" the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the Framework.

- 1.2 Likewise, Item 17 of the Standard provides that,

An entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

Xxx

(b) to present information, including accounting policies, in a manner that provides relevant, **reliable**, comparable, and understandable information.

- 1.3 Review of the payable accounts of the District as of December 31, 2022, with its supporting schedules, disclosed that its loan payable amounting to ₱42,604,149.12 is due to LWUA in which ₱1,407,017.00 of the balance pertains to its current portion due in the next accounting cycle, while the remaining ₱41,197,132.12 is non-current.

1.4 Confirmation with LWUA reveals the following information:

<b>Payables</b>	<b>BWD</b>	<b>LWUA</b>	<b>Difference</b>
Principal	42,604,149.12	43,430,480.96	(826,331.84)
Interest	0.00	524,570.94	(524,570.94)
Penalties	0.00	65,485.98	(65,485.98)
<b>TOTAL</b>			<b>(1,416,388.76)</b>

- 1.5 As can be gleaned from the table, the balances appearing in the records of both parties do not reconcile which is not in accordance with IAS I. The standard requires that financial statements must present fairly the financial position of an entity. The standard further provides among others that a fair presentation of financial position requires reliable information. Reliability connotes the degree of consistency of information. As such, account balances in the Financial Statements should be consistent with the records of other party-related to the transactions which yielded the account balances. Having consistent information affirms the dependability of the Financial Statements.
- 1.6 Considering the amount of discrepancy and that all related payable accounts of the District do not agree with the records of LWUA, it can be concluded that the District did not reconcile its records with LWUA or confirm the balances appearing in its books of accounts and ensure that the correct balances are presented in its Financial Statements.
- 1.7 Consequently, the ₱1,416,388.76 discrepancy between the payable accounts balances of the District and records of LWUA casts doubt on the reliability of the ₱42,604,149.12 year-end balance of LWUA loan-related payable accounts of the District, thus, affected its fair presentation in the Financial Statements.
- 1.8 We recommended that Management reconcile its outstanding loan balances, as well as related interests and penalties with LWUA to present fairly the account balances of the financial obligations of the District in its Financial Statements.**
- 1.7 Management commented that they were paying their amortizations based on the schedule provided to them by LWUA. However, the latter had applied a portion of their amortization payments to interest billings without the consent of the District. As such, its amortization payments became deficient, hence, the billed penalties.
- 1.8 The Audit Team reiterates that Management should make representation with LWUA to reconcile its outstanding payables.

***Non-reclassification of the CIP-IA account amounting to ₱16,381,257.05 to Appropriate Asset Account***

- 2. The CIP-IA account amounting to ₱16,381,257.05 was not yet reclassified to Water Supply Systems account despite completion of projects as of December 31, 2022, contrary to International Accounting Standard (IAS) 1 and the Revised Chart of Accounts (RCA), thus resulting in the overstatement of CIP-IA account and understatement of Water Supply Systems account by the same amount.**

2.1 IAS 1 *Presentation of Financial Statements* sets out the overall requirements for financial statements. Item 1.5 of the standard requires that the financial statements must "present fairly" the financial position, financial performance, and cash flows of an entity. 1.5 Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the Framework.

2.2 Further, Item 17 of the Standard provides that,

An entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

Xxx

(b) to present information, including accounting policies, in a manner that provides relevant, **reliable**, comparable and understandable information.

2.3 While RCA provides the account description of CIP – IA account which states that *“This account is debited to recognize the accumulated cost or other appropriate value of infrastructure assets which are still in the process of construction or acquisition. This account is **credited upon reclassification to the appropriate infrastructure assets account upon completion, and/or adjustments**”*.

2.4 Review of the Statement of Financial Position (SFP) of the District disclosed that its CIP – IA account has a year-end balance of ₱16,381,257.05. Verification of the details of the balance showed the following information:

Project	Date/Year Completed	Amount
Drilling of One Unit Exploratory/Production Well for BWD	2021	2,610,536.03
Procurement of Civil Works for the Rehabilitation & Expansion Project	1/28/2022	13,770,721.02
<b>TOTAL</b>		<b>16,381,257.05</b>

- 2.5 As can be gleaned from the table, projects included in the account were already completed as of December 31, 2022. This being said, applying the account description of the CIP – IA account, the two projects which comprised the ₱16,381,257.05 balance should have already been reclassified to its appropriate infrastructure asset account which is the Water Supply Systems account upon their completion dates.
- 2.6 Information gathered revealed that the Accountant has not yet reclassified the projects to Water Supply Systems account because the projects were not yet operational as of this date due to its electrical concerns. It was explained that the electrical component of the projects was not included in the program of works when the projects were bided. It was the initial plan of the District to contract out the electrical requirement of the projects by conducting a separate procurement through the alternative mode.
- 2.7 It is worth pointing out that the electrical component is a vital requirement of the projects which should have been included in the projects' program of works which were procured through competitive bidding. Logically, there seems to be a splitting of contracts because the procurement of the electrical requirement through the alternative mode could be considered a phase of the holistic view of the contract for the projects. With that, the Management is reminded that splitting of contracts is not allowed especially when resorting to the alternative mode of procurement. Section 54 of the Revised IRR of RA No. 9184 explicitly provides that "*the Procuring Entity shall ensure that there is a clear delineation of work for each phase, which must be **usable and structurally sound***". Clearly, the procurement law requires that every project done by phase should already be usable upon phase completion which was not the case of the completed projects of the District.
- 2.8 Also, it was noted that the procurement of the electrical component of the projects was done 10 months after the completion of the second project. Consequently, the ₱16,381,257.05 worth of projects were idle for more than one to two years now which also means possible loss of revenue for the District.
- 2.9 Moreover, this affects the fair presentation of the accounts as presented in the Financial Statements of the District due to understatement of PPE account and overstatement of CIP-IA account by ₱16,381,257.05.

**2.10 We recommended that Management instruct:**

- a. The Accountant to immediately take up the following adjusting entry:**

CIP – IA	16,381,257.05
Water Supply Systems	16,381,257.05

- b. **The planning department of the District to meticulously and judiciously plan the projects of the District in adherence to pertinent provisions of the Procurement Law to ensure that constructed PPEs are immediately utilized in the operation of the District.**

2.11 Management agreed with the observations and committed to comply with the recommendations.

***Semi-expendable properties amounting to ₱580,730.00 were recorded as PPE***

- 3. **Semi-expendable properties totaling ₱580,730.00 were still recorded as Property, Plant and Equipment (PPE), contrary to COA Circular No. 2022-004 dated May 31, 2022, thus resulting in the overstatement of PPE, Depreciation Expense and Retained Earnings accounts.**

3.1 Section 23 of the General Provisions of RA No. 11639 or the FY 2022 GAA provides that tangible items below 50,000.00 shall be accounted as semi-expendable property. As such, the Commission on Audit having the exclusive authority to promulgate accounting and auditing rules and regulations, prescribed the guidelines for its implementation in COA Circular No. 2022-004 dated May 31, 2022.

3.2 Items 3.1 and 4.1 of the Circular provides that,

Semi-expendable property are tangible items which meet the definition and recognition criteria of Property, Plant and Equipment (PPE) but below the capitalization threshold of 50,000.00.

Tangible items which meet the definition and recognition criteria of PPE but cost is below Fifty Thousand Pesos (₱50,000.00) shall be accounted in the books of accounts of the agencies as semi-expendable property. Xxx

3.3 Review of the lapsing schedule of PPE accounts of the District revealed that tangible items costing below ₱50,000.00 with an aggregate cost of ₱580,730.00 were still recognized in the books of accounts as PPE which does not conform with the recent update on the capitalization threshold of ₱50,000.00 as provided under RA No. 11639 and COA Circular No. 2022-004.

3.4 It is worth emphasizing that the new capitalization threshold of ₱50,000.00 shall be applied retrospectively which means that it covers all tangible items purchased in calendar year 2022 onwards and in prior years.

3.5 The Circular is also instructive that the carrying amount of tangible items previously recognized as PPE but now below the capitalization threshold should



be debited to Retained Earnings/(Deficit) (RE) account for Government Corporations like the BWD. Since these tangible items totaling ₱580,730.00 were previously recognized as PPE and have already been issued to end-users, the carrying values totaling ₱281,759.15 should be debited to Retained Earnings/(Deficit) account. This adjustment to the RE account represents a prior year's debit to Semi-expendable Property Expense account given that according to the above-quoted circular, these tangible items should now be recognized as Semi-expendable Property and expensed upon issuance.

- 3.6 Corollary, due to the continued recognition of these tangible items as PPE, depreciation expense totaling ₱87,949.49 was still recorded in the books for the year 2022. This should not already be the case considering that these items are already covered by the accounting policies on Inventories which are not subject to depreciation but only to impairment.
- 3.7 Inquiry from Management disclosed that they were not aware of this recent development, hence, were not able to adjust their accounting records accordingly. The Audit Team wishes to remind Management to keep the records of the District conform with recent accounting policies for a fair presentation of Financial Statements.

### **3.8 We recommended that Management:**

#### **a. Take up the following Adjusting Entries:**

<b>i. Retained Earnings/(Deficit)</b>	<b>281,759.15</b>
<b>Accumulated Depreciation –</b>	
<b>Furniture &amp; Fixtures</b>	<b>33,581.56</b>
<b>Office Equipment</b>	<b>7,479.11</b>
<b>ICT Equipment</b>	<b>91,439.19</b>
<b>Other Machinery and Equipment</b>	<b>166,470.99</b>
<b>Furniture and Fixtures</b>	<b>120,293.00</b>
<b>Office Equipment</b>	<b>10,050.00</b>
<b>ICT Equipment</b>	<b>146,590.00</b>
<b>Other Machinery and Equipment</b>	<b>303,797.00</b>
<b>ii. Accumulated Depreciation –</b>	
<b>Office Equipment</b>	<b>1,909.56</b>
<b>Furniture and Fixtures</b>	<b>22,855.68</b>
<b>ICT Equipment</b>	<b>24,463.47</b>
<b>Other Machinery and Equipment</b>	<b>38,720.78</b>
<b>Depreciation Expense-</b>	
<b>Office Equipment</b>	<b>1,909.56</b>
<b>Furniture and Fixtures</b>	<b>22,855.68</b>
<b>ICT Equipment</b>	<b>24,463.47</b>
<b>Other Machinery and Equipment</b>	<b>38,720.78</b>

**b. Keep abreast with recent updates on government accounting policies for a fair presentation of BWD Financial Statements.**

- 3.9 Management commented that they will make the necessary adjusting entries and further commented to comply with the audit recommendations. Management also committed to designate a Property Officer through a Board Resolution.

***Unreconciled Discrepancy of Accounts Receivable amounting to ₱39,547.05***

**4. The balance of the Accounts Receivable account of the District is ₱39,547.05 lower than the total balance of its supporting schedules, which is not in accordance with International Accounting Standards (IAS) 1, thus, casting doubt on the accuracy and reliability of its ₱861,010.05 year-end balance and consequently affecting the fair presentation of the account balance in the Financial Statements.**

- 4.1 IAS 1 *Presentation of Financial Statements* sets out the overall requirements for financial statements. Item 1.5 of the standard requires that the financial statements must "present fairly" the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the Framework.
- 4.2 Likewise, Item 17 of the Standard provides that,

An entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

Xxx

(b) to present information, including accounting policies, in a manner that provides relevant, **reliable**, comparable and understandable information.

- 4.3 Verification of the Accounts Receivable of the District and its supporting schedules revealed that the ₱861,010.05 balance of the account as presented in the Statement of Financial Position as of December 31, 2022, does not agree with the ₱900,557.10 total balance of the supporting schedules resulting in a discrepancy of ₱39,547.05.
- 4.4 Management opined that the possible cause of the discrepancy may be their present work set-up, such that the collecting personnel who has full access with the ledger cards of concessionaires is not the same person who records and prepares the supporting schedules. If only these tasks are given to one personnel

possible errors in the recording process could be traced immediately. They further commented that they have difficulty in reconciling more than 2,000 accounts of concessionaires because they have to monitor the records thru the manual process.

- 4.5 It must be noted that for control purposes, the person who does the collection should not be the same person recording the transaction. It is just but proper that these functions were given to different personnel of the District. However, it was observed that the District does not maintain database of its concessionaries where they could update billings and payments. The Audit Team recognizes the predicament of Management regarding their manual process but there are ways how to perform the work more efficiently by using computers. Monitoring the accounts of concessionaries is a must for the District because this is intimately related to the collection of revenues which is a vital aspect of the District's operation.
- 4.6 More importantly, records of the District should be updated and reconciled to present an accurate and reliable account balances in its Financial Statements. Accurateness and reliability of the account balances can only be achieved if year-end balances are sufficiently supported with details and documents.
- 4.7 **We recommended that Management:**
  - a. **Establish computer-based monitoring of Accounts Receivables, and**
  - b. **Conduct regular reconciliation of concessionaire's ledger cards, accounting records and would be database to keep the records of the District accurate and reliable for fair presentation of Accounts Receivable year-end balance.**
- 4.8 Management commented that they will develop a computer-based monitoring system. They further commented to comply with the given recommendations.

***Dormant Accounts Receivable amounting to ₱183,530.00***

5. **Dormant accounts receivable amounting to ₱183,530.00 have been long outstanding but no request for its write-off was initiated due to non-monitoring and analysis of the account, which is not in compliance with COA Circular No. 2016-005 dated December 19, 2016, thereby affecting the fairness of presentation of the balance of Accounts Receivable account in the Financial Statements.**
  - 5.1 IAS 1 *Presentation of Financial Statements* sets out the overall requirements for financial statements. Item 1.5 of the standard requires that the financial statements must "present fairly" the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the

definitions and recognition criteria for assets, liabilities, income, and expenses set out in the Framework.

5.2 Moreover, COA Circular No. 2016-005 states that:

All government entities shall conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable, and that cash advances and fund transfers are liquidated within the prescribed period depending upon their nature and purpose. Xxx

- 5.3 Review of the aging of Accounts Receivable as of December 31, 2022 disclosed that out of ₱ 861,010.05 year-end balance, ₱183,530.00 have been long outstanding for more than 10 years, thus, already dormant as per COA Circular No. 2016-005 which provides that *“Dormant Receivable Accounts - accounts which balances remained inactive or non-moving in the books of accounts for ten (10) years or more and where settlement/collectability could no longer be ascertained.”*
- 5.4 The information gathered revealed that the failure of Management to request the write-off of these dormant receivable accounts is attributable to the lack of monitoring of inactive accounts of some concessionaires. Thus, no analysis of the composition of the balance was made.
- 5.5 Nonetheless, Management is encouraged to look into the details of these dormant accounts because as required under COA Circular No. 2016-005, all government agencies shall conduct regular monitoring and analysis of receivable accounts. Also, IAS 1 requires the fair presentation of the financial position of any entity. The inclusion in the balance of Accounts Receivable of the District of the ₱183,530.00 dormant accounts, which settlement or collectability could no longer be ascertained, affects the fair presentation of the account in the Financial Statements.

**5.6 We recommended that Management:**

- a. Review the dormant accounts receivable and determine if there is still possibility of collecting them. If none, then prepare the requirements and initiate the request for write-off of the ₱183,530.00 dormant accounts receivable, and**
- b. Periodically monitor and analyze the composition of the Accounts Receivable account and promptly request for the write-off of dormant accounts that meet the conditions provided in the Circular, to ensure fair presentation of Accounts Receivable account in the Financial Statements.**

- 5.7 Management committed to initiate the process of writing off its dormant accounts receivable. Management further commented that they will comply with the rest of the recommendations.

***Discrepancy between the GL and SL balance of Chemical and Supplies Inventory Account***

**6. The year-end balance of Chemical and Supplies Inventory Account of the District amounted to ₱144,195.05 while, its supporting schedule totaled ₱366,259.19 resulting in a discrepancy of ₱222,064.14, which is not in accord with International Accounting Standards (IAS) 1, thereby affecting the fair presentation of the Inventory account balance in the Financial Statements.**

- 6.1 IAS 1 *Presentation of Financial Statements* sets out the overall requirements for financial statements. Item 1.5 of the standard requires that the financial statements must "present fairly" the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the Framework.

- 6.2 Likewise, Item 17 of the Standard provides that,

An entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

Xxx

- (b) to present information, including accounting policies, in a manner that provides relevant, **reliable**, comparable and understandable information.

- 6.3 Verification and comparison of the Chemical and Supplies Inventory account balance of the District as of December 31, 2022 with its supporting schedule disclosed that the year-end balance of ₱144,195.05 was ₱222,064.14 lower than the ₱366,259.19 total balance of the supporting schedule which is not in accordance with IAS I. The standard requires that financial statements must present fairly the financial position of an entity. The standard further provides among others that a fair presentation of financial position requires reliable information. Reliability connotes the degree to which the result of a measurement, calculation, or specification can be depended on to be accurate. As such, account balances in the Financial Statements should be supported with sufficient details and documents to uphold dependability of information that users of Financial Statements basically need to form an intelligent financial decision.

- 6.4 Management disclosed that receipt of inventory items purchased on account was not being reported for recording, instead only issuances thereof are being reported and thus recorded. Additions to the Inventory account were recorded only when payments are made, thus, the noted discrepancies.
- 6.5 Suffice it to say, the cause of discrepancy was the lack of inventory process flowchart in case of on account purchases. An inventory process flowchart shows how inventory items flow across individual departments. It ensures proper recording of all inventories received and issued.
- 6.6 Further, the Audit Team noted that the District failed to conduct the physical count of Inventories. This procedure also helps to uncover discrepancies. Physical inventory count is an essential part of keeping inventory records accurate and current.
- 6.7 Consequently, the ₱222,064.14 discrepancy between the balances of Chemical and Supplies Inventory and its supporting schedule casts doubt on the reliability of the ₱144,195.05 year-end balance of the account which affects its fair presentation in the Financial Statements.
- 6.8 **We recommended that Management:**
- a. Study and analyze the noted discrepancy and take up the necessary adjusting entry in the books of accounts or in the supporting schedules;**
  - b. Establish an inventory process flowchart to ensure proper recording of all inventories received and issued, and**
  - c. Periodically conduct physical count of Inventories to uncover discrepancies and to keep inventory records and balances reliable for fair presentation in the Financial Statements.**
- 6.9 Management commented that there is no recording of purchases on account but deducts from stock balance whenever there is issuance and no inventory count was made from a long time. Management further commented that they will comply with the recommendations.

## B. COMPLIANCE AUDIT

*Incomplete documentation of Gasoline Expenses and Surveying Expenses amounting to ₱421,525.18 and 24,000.00, respectively*

7. Gasoline expenses totaling ₱421,525.18 were processed and paid without the required billing statements, charge invoices, requisition and issue voucher or equivalent and driver's trip tickets, which is not in accordance with PD No. 1445, COA Circular Nos. 2012-001 and 77-61, thereby, casting doubt on the regularity, propriety and validity of the transactions.

- 7.1 Section 4 of PD No. 1445 sets out the Fundamental Principles governing financial transactions. Among these Fundamental Principles is item 6 which states that,

“Claims against government funds shall be supported with complete documentation”.

- 7.2 COA Circular No. 2012-001 was issued to prescribe the Revised Guidelines and Documentary Requirements for Common Government Transactions. General requirements for all types of disbursements include among others the sufficiency and relevancy of supporting documents in establishing validity of claims against government funds. Specifically, the requirements for the payment of utilities are *Invoice, Official Receipts and Statement of Account/Bill*.

- 7.3 Likewise, COA Circular No. 77-61 or the Manual for Fuel Consumption provides that, expenditures for fuel consumption should be effectively controlled and duly accounted for. As such, the following guidelines were imposed,

“Fuel consumption of government motor transportation shall be properly controlled and accounted for through approved Requisition and Issue Voucher or equivalent”

“No disbursement voucher for fuel consumption of government vehicles shall be allowed in audit unless duly supported by properly accomplished and approved serially numbered driver's trip tickets.”

“All expenses regarding unauthorized use or misuse of government motor transportation shall be disallowed in audit.”

- 7.4 In sum, the following are the required supporting documents for the payment of fuel consumption - *Invoices, Official Receipts, Statements of Account/Bill, driver's trip tickets and approved Requisition and Issue Voucher (RIV) or equivalent*.

7.5 Audit of fuel consumption disbursements revealed that the District incurred ₱421,525.18 during the year. Verification of its supporting documents showed the following to be the only attachments to the vouchers:

- Quotations from prospective fuel suppliers
- Abstract of Quotation

7.6 To elaborate, the invoices and official receipts are necessary to justify the liters of fuel that were validly purchased by the District. These documents would show that the amounts paid by the District were just and proper. The Statement of Account or the Billing is a document from the fuel supplier summarizing the liters of fuel purchased on account. The driver's trip ticket is required to control the use of government vehicles, such that before any trip is undertaken, authority shall first be secured from the Head of the Agency. The RIV or equivalent shall be the basis of procuring gasoline from a gasoline service station normally supplying the District with its fuel needs. The absence of all of these required supporting documents precluded the Audit Team to ascertain whether the District's fuel expenses of ₱421,525.18 for the year 2022 comply with all the guidelines as required under the COA Circulars.

7.7 Considering that the absence of these required supporting documents is true to all fuel transactions of the District for the year 2022, it can be inferred that it is a practice of the District to process and pay fuel expenses even without the required supporting documents. Consequently, the incomplete documentation of these transactions casts doubt on the regularity, propriety and validity of the ₱421,525.18 fuel expenses paid by the District.

**7.8 We recommended that Management:**

- a. Prepare and submit the required supporting documents - Invoices, Official Receipts, Statements of Account/Bill, driver's trip tickets and approved Requisition and Issue Voucher (RIV) or equivalent, to establish and justify the regularity, propriety and validity of the ₱421,525.18 fuel expenses paid by the District, and**
- b. Ensure that all fuel consumption expenses processed and paid by the District are supported with the required documents as prescribed under COA Circular 2012-001 and the Manual on Fuel Consumption.**

7.10 Management commented that Invoices are on file. Management further committed to start attaching the invoices, requisition slips and summary of fuel usage to support fuel and oil consumptions.

**8. Payment of surveying services and application for the approved survey plan amounting to ₱14,000.00 and ₱10,000.00, respectively were paid without the**



**basic supporting documents such as purchase orders/contracts and report of accomplishments, which is not in accordance with COA Circular 2012-001, thereby precluded the Audit Team to ascertain the appropriateness of the payments made vis-à-vis the terms and conditions of the contracts.**

8.1 COA Circular No. 2012-001 was issued to prescribe the Revised Guidelines and Documentary Requirements for Common Government Transactions. As provided in the Circular, the basic documentary requirements for all types of procurement include among others:

- Purchase Orders/Contracts
- Report of Accomplishments

8.2 Post-audit of disbursements showed that the District acquired 2 lots of 100 square meters each at Brgy. Bulbulala and Calliat, Balaoan, La Union. To facilitate the transfer of title under the name of the District, surveying services were contracted. It was noted that the District paid ₱14,000.00 for surveying services in June 2022 and ₱10,000.00 for the application of approved survey plan in December 2022.

8.3 Further review of the disbursement vouchers (DVs) revealed that the transactions were seemingly contracted directly with the Surveyor without undergoing the procurement process given that purchase orders/contracts, report of accomplishments and documents related to procurement process were all lacking. The official receipts issued by the Surveyor covering the payments received was the only supporting document of the DVs. These precluded the Audit Team to evaluate the appropriateness of the payments made if it conforms with the terms and conditions of the contracts.

8.4 Management informed the Audit Team that the surveys of the lots were still on going as of December 31, 2022. Contracting surveying services without the necessary documents has been the previous practice whenever the District is on the process of transferring title of acquired lands under its name.

8.5 The current practice might fast track the transactions just like the previous, nonetheless, it is not a guarantee of success for subsequent transactions involving the same nature. It is just proper to execute purchase orders/contracts to establish the terms and conditions of the services to be rendered consequently facilitating the efficient review of the transactions and complying with existing rules and regulations.

**8.6 We recommended that Management direct:**

- a) The BAC to execute and submit the necessary supporting documents to substantiate the appropriateness and validity of the surveying services paid by the District, and**

- b) The Accountant to submit justification on the payments of surveying services despite absence of necessary supporting documents.**

8.7 Management committed to comply with the recommendations.

*Lapses on the Issuance of Certificate of Final Acceptance*

- 9. The Certificate of Final Acceptance of the project Rehabilitation and Expansion of BWD was signed and issued by the Head of Procuring Entity (HOPE) on the same date of project completion, which is not in adherence to Section 62.2.2 of the 2016 Revised IRR of Republic Act (RA) No. 9184, thereby prematurely releasing the Contractor and the Surety of its liability to answer for possible uncorrected discovered defects and to third-party, to the disadvantage of the government.**

9.1 2016 Revised IRR of RA No. 9184 provides the following:

62.2.2. One (1) year from project completion up to final acceptance or the defects liability period.

62.2.2.1. The contractor shall undertake the repair works, at his own expense, of any damage to the infrastructure on account of the use of materials of inferior quality, within ninety (90) days from the time the HoPE has issued an order to undertake repair. In case of failure or refusal to comply with this mandate, the Procuring Entity shall undertake such repair works and shall be entitled to full reimbursement of expenses incurred therein upon demand.

62.2.2.2. The defects liability period shall be covered by the Performance Security of the contractor required in Section 39.1 of this IRR, which shall guarantee that the contractor performs his responsibilities stated in the immediately preceding Section. If the contractor fails to comply with its obligations under Section 62.2.2.1 of this IRR, the Procuring Entity shall forfeit its performance security, subject its property(ies) to attachment or garnishment proceedings, and perpetually disqualify it from participating in any competitive bidding. All payables of the GoP in his favor shall be offset to recover the costs.

## Annex “E”

Item 6.2. The total "retention money" shall be due for release upon final acceptance of the works. The contractor may, however, request the substitution of the retention money for each progress billing with irrevocable standby letters of credit from a commercial bank, bank guarantees or surety bonds callable on demand, of amounts equivalent to the retention money substituted for and acceptable to Government, provided that the project is on schedule and is satisfactorily undertaken.

- 9.2 The District implemented the project entitled “Rehabilitation and Expansion Project of BWD” with a contract cost of ₱13,105,132.50. Perusal of the available documents relative to the contract of the project disclosed that the programmed civil works were completed on January 28, 2022, as certified by the HOPE - General Manager (GM) of the District. On even date, the GM issued Certificate of Project Acceptance which was observed to be not in conformity with the one (1) year defect liability period that is from project completion up to final acceptance as stated in the above-quoted provisions of the 2016 Revised IRR of RA No. 9184.
- 9.3 Further review of documents revealed that the Contractor requested and has been allowed to substitute the retention money with a surety bond callable on demand dated April 12, 2022. Nonetheless, upon evaluation of the Surety Bond, it was noted that the Surety shall be released from liability under the bond upon the issuance of certificate of final acceptance of the works. It is worth emphasizing that the completed works of the project have already been accepted by the HOPE even before the submission of surety bond. Suffice it to say, the contractor has already been released from liability on January 28, 2022 because of the issuance of Certificate of Final Acceptance on the same date as when the project was certified as completed.
- 9.4 Deeper prodding revealed that Management overlooked the one (1) year defects liability period and had issued the Certificate of Completion and the Certificate of Final Acceptance simultaneously.
- 9.5 Consequently, the Contractor and the Surety have been prematurely released from their liability to answer for possible uncorrected discovered defects and to third-party, such that the government is deprived of the available remedies in case of uncorrected discovered defects and third-party liabilities that may arise involving the project.
- 9.6 We recommended that Management strictly observe and enforce the one (1) year defects liability period such that the Certificate of Final Acceptance should only be issued after one year from the completion of the works of the**

**project so as not to deny the government the chance to avail the remedies provided under the 2016 Revised IRR of RA No. 9184 in cases of defects and third-party liability.**

- 9.7 Management acknowledged its lapses on the issuance of the Certificate of Final Acceptance. Management commented that they will comply with the recommendations.

***Various Lapses on the Utilization of Extraordinary and Miscellaneous Expense (EME) amounting to ₱98,134.75***

**10. Extraordinary and Miscellaneous Expense (EME) reimbursements amounting to ₱98,134.75 of the District were paid without indicating and providing the nature and purposes of the transactions, contrary to PD No. 1445, COA Circular Nos. 2012-001 and 2006-001, thereby, casting doubt on the regularity, propriety and validity of the transactions. Likewise, the total amount of EME for the year ended December 31, 2022 was ₱122,363.21 over and above the General Appropriations Act (GAA) ceiling of ₱116,400.00.**

- 10.1 Section 4 of PD No. 1445 sets out the Fundamental Principles governing financial transactions. Among these Fundamental Principles are items 2 and 6 which state that,

xxx

2. Government funds or property shall be spent or used solely for public purposes.

xxx

6. Claims against government fund shall be supported with complete documentation.

- 10.2 COA Circular No. 2012-001 prescribes the Revised Guidelines and Documentary Requirements for Common Government Transactions. General requirements for all types of disbursements include among others the sufficiency and relevancy of supporting documents in establishing validity of claims against government funds.

- 10.3 Further, COA Circular No. 2006-001 was issued to prescribe rules and regulations specifically for government corporations to regulate the incurrence of EME and to ensure the prevention or disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures or uses of government funds.

10.4 The Scope and Coverage of COA Circular No. 2006-001 states that,

This Circular shall be applicable to all GOCCs, GFIs and their subsidiaries. It shall cover extraordinary and miscellaneous expenses and other similar expenses, such as representation expenses and the like, discretionary, business development expenses, provided that the nature or purpose of said expenditures pertain to any of the following:

- a. meetings, seminars and conferences;
- b. official entertainment;
- c. public relations;
- d. educational, athletic and cultural activities;
- e. contribution to civic and charitable institutions;
- f. membership in government associations;
- g. membership in national professional organizations duly accredited by the Professional Regulation Commission;
- h. membership in the Integrated Bar of the Philippines;
- i. subscription to professional technical journals and informative magazines, library books and materials;
- j. other similar expenses not supported by regular budget allocation.

The above enumeration is not exclusive and shall not prevent the inclusion of other similar disbursements which may be categorized as extraordinary and miscellaneous expenses within its contemplation.

10.5 Thus, following the above-quoted provision of COA Circular 2006-001, the nature and purposes of EME should only be those within the contemplation of the given enumeration. The general phrase “other similar expenses not supported by regular budget allocation” is specifically construed as limited and apply only to expenses of the same nature as those expressly enumerated. The nature and purpose shall likewise be specified in the reimbursements.

10.6 Post audit of the expenses charged against the EME account revealed that out of the ₱238,763.21 year-end balance, ₱98,134.75 pertains to reimbursements claimed by the GM - Head of the District and ₱140,628.46 were operational expenses not supported by regular budget allocation. Further perusal of the vouchers covering the claimed reimbursements showed that these were supported only with official receipts. No document could show the nature and purposes of the amounts reimbursed, thus, the Audit Team was precluded in ascertaining whether the claimed reimbursements appropriately fall within the enumeration contemplated under COA Circular 2006-001.

10.7 Considering that the absence of nature and purposes of the claimed reimbursements is true to all transactions pertaining to ₱98,134.75 EME, it can be concluded that this has been the practice of the District. Consequently, the incomplete documentation of these transactions casts doubt on the regularity, propriety and validity of the ₱98,134.75 EME paid by the District.

10.8 Moreover, it bears pointing out that the District has the following ceiling as per the general provisions of GAA 2022:

Extraordinary Expenses	₱26,400.00
Miscellaneous Expenses	<u>90,000.00</u>
<b>TOTAL EME</b>	<b>116,400.00</b>

10.9 Clearly, with the ₱238,763.21 incurred for EME for the year ended December 31, 2022, the District had allocated and utilized excess EME amounting to ₱122,363.21, contrary to the audit guidelines prescribed in COA Circular 2006-001 which states that,

The amount of extraordinary and miscellaneous expenses, as authorized in the corporate charters of GOCCs/GFIs, shall be the ceiling in the disbursement of these funds. Where no such authority is granted in the corporate charter and the authority to grant extraordinary and miscellaneous expenses is derived from the General Appropriations Act (GAA), the amounts fixed thereunder shall be the ceiling in the disbursements;

10.10 Management informed the Audit Team that they also allocated and utilized as EME those operational expenses not falling within the regular budget such as bacteriology tests, anniversary expenses and surveying expenses.

10.11 The Audit Team is of the view that those operational expenses not falling within the regular budget should properly be charged as EME since these are included within the contemplation of the enumeration provided in COA Circular 2006-001. However, the District should strictly observe the fixed amount limitation provided under the GAA.

**10.12 We recommended that Management:**

- a. **State the nature and purposes in the reimbursements of EME to establish and justify the regularity, propriety and validity of the ₱98,134.75 paid by the District;**
- b. **Ensure that all reimbursements of EME processed and paid by the District are supported with sufficient and duly accomplished**

**documents to establish and justify the regularity, propriety and validity of the transactions, and**

- c. Strictly allocate the budget for EME within the fixed amount limitations prescribed under the general provisions of GAA.**

10.13 Management agreed and committed to comply with the recommendations and to adhere with the guidelines on the usage of EME.

***Various Deficiencies on the Procurement Process of the District***

- 11. Various procurement deficiencies were noted to be not in adherence with the pertinent provisions of the Revised IRR of RA No. 9184 and other related procurement rules and regulations.**

- a. The RFQs of various procurement through the Small Value Procurement (SVP) modality totaling ₱1,095,808.93 were not sent to at least 3 prospective suppliers, contrary to Item D (8) of Annex ‘H’ of the 2016 Revised IRR of R.A. No. 9184, thereby depriving the District of the opportunity to obtain the lowest prices available that could have generated savings.**

- 11.1 Item D (8) of Annex “H” of the 2016 Revised IRR of R.A. No. 9184 provides the specific guidelines applicable to SVP. The second procedure laid down therein states that,

**The BAC shall prepare and send the RFQs/RFPs to at least three (3) suppliers,** contractors or consultants of known qualifications. This, notwithstanding, those who responded through any of the required postings shall be allowed to participate. Receipt of at least one (1) quotation is sufficient to proceed with the evaluation thereof.

- 11.2 As shown in the above-quoted procurement procedure, the IRR requires in SVP modality that RFQs/RFPs should be sent to at least 3 suppliers aside from the advertisements/invitations that the District may have posted to the required media where prospective suppliers may also be allowed to participate.

- 11.3 However, post audit of the transactions of the District pertaining to procurement disclosed that the RFQs/RFPs of SVP modality have not been sent by the Bids and Awards Committee (BAC) to at least 3 prospective supplier, but only to the supplier to whom the District had contracted with. No document would show that they have sent nor tried sending RFQs/RFPs to at least two more prospective suppliers as compliance with the above-quoted procedure.

11.4 It is expressly provided in the SVP modality that the receipt of at least one (1) quotation is sufficient to proceed with the evaluation. Considering that the deficiency is true to all SVP procurements of the District, it can be inferred that the District may have overlooked the requirement of sending the RFQs/RFPs to at least 3 prospective suppliers with the sufficiency of at least 1 quotation received from prospective suppliers.

11.5 It is worth noting that sending of RFQs/RFPs to at least 3 prospective suppliers is aimed at obtaining the lowest prices available in the market. In that way, the District could have generated savings which can be utilized to defray other operational expenses.

**b. The Approved Budget for the Contracts (ABCs) of the 7 procurements of various goods through shopping modality totaling ₱126,250.00 were not indicated in the RFQs sent by the BAC to prospective suppliers, which contradicts Item V. C.2 (a) ii of Annex “H” of the 2016 Revised IRR of RA No. 9184, thus the reasonableness of the quoted prices could not be ascertained whether advantageous to the government, since the price ceiling was not provided.**

11.6 Annex “H” of the 2016 Revised IRR of R.A. No. 9184 provides that:

The BAC shall immediately prepare the RFQ, indicating the specifications, quantity, ABC, and other terms and conditions of the contract.

11.7 Post audit of 7 disbursements of the District on the procurement of various goods totaling ₱126,250.00 through the shopping modality revealed that the ABCs of goods intended to be procured were not indicated in the RFQs sent to prospective suppliers. As such, the procedure required in the above quoted provision was not fully complied with.

11.8 The concept of Section 32 in the 2016 Revised IRR of R.A. No. 9184 which discusses Ceiling for Bid Prices is also applicable in Alternative Modes of Procurement since the law also requires the BAC to indicate the ABC in the RFQs to be sent to prospective suppliers. As a matter of emphasis, Section 32.1 of the same law is quoted below.

The ABC shall be the upper limit or ceiling for acceptable bid prices. If a bid price, as evaluated and calculated in accordance with this IRR, is higher than the ABC, the bidder submitting the same shall be automatically disqualified. There shall be no lower limit or floor on the amount of the award.



11.9 Viewed from the foregoing provision, an upper limit or ceiling is a mandatory requirement that must be indicated by the procuring entity to be able to determine the acceptable quotations that prospective suppliers may offer. However, since the ABCs of the items intended to be procured were not indicated in the RFQs, all quotations submitted by prospective suppliers were accepted and ranked by the BAC without limitation as to the amount quoted. The contract is awarded to the supplier which has the lowest quotation. Evidently, this practice is not in keeping with the concept conveyed in the Ceiling for Bid Prices.

11.10 Taking into account that the ABCs of all procurement of the District through the shopping modality were not indicated in their respective RFQs, it can be inferred that the BAC of the District failed to consider the Ceiling for Bid Prices which is also applicable in cases of Alternative Modes of Procurement.

11.11 Consequently, the reasonableness of the quoted prices of prospective suppliers could not be determined whether advantageous/disadvantageous to the government, since the price ceiling was not provided.

**c. The ₱10,000.00 cost of bidding documents collected by the District for a project with an ABC of ₱3,620,000.00 was beyond the amount prescribed under GPPB Resolution No. 04-2012, thus, resulting in the excessive collection of fees and defeating the purpose of regulating uniform bidding costs for all government entities.**

11.12 GPPB Resolution No. 04-2012 provides the Guidelines on the sales of Bidding Documents. These guidelines are formulated to provide standard rates for the sale of bidding documents to rationalize the fees primarily to regulate its price and to lessen the exercise of discretion of procuring entities so as not to discourage market participation and competition.

11.13 Item 4.5 of the Resolution states that,

Procuring entities are proscribed to adopt any internal rule or practice that establish fees that are inconsistent or beyond the standard rate for the sale of bidding documents set forth in these guidelines.

11.14 Further, Item 5 provides the standard rates,

The cost of bidding documents shall correspond to the ABC range as indicated in the table below. This shall be the maximum amount of fee that procuring entities can set for the acquisition of bidding documents.

<b>Approved Budget for the Contract</b>	<b>Maximum Cost of Bidding Documents (in Philippine Peso)</b>
500,000 and below	500.00
More than 500,000 up to 1 Million	1,000.00
More than 1 Million up to 5 Million	5,000.00
More than 5 Million up to 10 Million	10,000.00
More than 10 Million up to 50 Million	25,000.00
More than 50 Million up to 500 Million	50,000.00
More than 500 Million	75,000.00

- 11.15 Contract Review of the project entitled “Drilling of one (1) production well” at Brgy. Bulbulala, Balaoan, La Union with a contract cost of ₱3,499,889.82 and an ABC of ₱3,620,000.00 disclosed that the District collected ₱10,000.00 each from prospective bidders for the cost of bidding documents which is beyond the standard rates prescribed under the above-quoted GPPB Resolution. Based on ABC of the project, the maximum cost of bidding documents should have been ₱5,000.00 which is 50% less than the actual collection.
- 11.16 Management explained that the ₱10,000.00 cost of bidding documents was just enough to cover over-all expenditures from printing, binding, payment of honoraria and meals and snacks served during stages of the procurement process.
- 11.17 The reason of Management may seem to be logical, however, it is explicitly provided in the GPPB Resolution that procuring entities just like the District, are proscribed to adopt any internal rule or practice that establishes fees that are inconsistent or beyond the standard rates for the sale of bidding documents set forth in the guidelines. As such, the District is obliged to collect only what is prescribed under the rules. The collection of fees beyond what is prescribed is without legal basis.
- 11.18 We recommended that Management direct the BAC to:**
- i. Always send RFQs/RFPs to at least 3 prospective suppliers when resorting to SVP modality to obtain the lowest prices available in the market and**
  - ii. Always indicate the ABCs of the items intended to be procured in the RFQs to be sent to prospective suppliers in strict compliance with the procedures set forth for Alternative Modes of Procurement provided in Annex ‘H’ of the 2016 Revised IRR of R.A. No. 9184;**

- iii. **Adopt and propose an internal rule or guideline that establishes fees/cost of bidding documents that are consistent or within the standard rates as set forth in the quoted guidelines, and**

11.19 Management committed to comply with the recommendations.

***Various deficiencies in the utilization and liquidation of Petty Cash Fund***

**12. Various deficiencies were noted in the utilization and liquidation of Petty Cash Fund, which are not in adherence with PD No. 1445, COA Circular No. 2012-001 and other related rules and regulations, thereby casting doubt on the validity and propriety of the expenses charged against the fund.**

12.1 Generally, Section 4 of PD No. 1445 sets out the Fundamental Principles governing financial transactions. Among these Fundamental Principles is item 6 which states that,

“Claims against government funds shall be supported with complete documentation”.

12.2 COA Circular No. 2012-001 provides the Revised Guidelines and Documentary Requirements for Common Government Transactions. Section 1.2.2 of the Circular states, among others, the documentary requirements for Petty Cash Fund Liquidation:

1.2.1 Petty Cash Fund

- Summary of Petty Cash Vouchers
- Petty Cash Vouchers duly accomplished and signed
- Report of Disbursements
- Certificate of Inspection and Acceptance
- Report of Waste Materials in case of replacements/repairs
- For reimbursement of toll receipts
  - Toll receipts
  - Trip tickets
- Such other supporting documents that may be required and/or required under the company policy depending on the nature of the expenses.

12.3 Further, Section 1.1.2 of the Circular provides that *“the PCF to be set up shall be sufficient for the recurring petty operating expenses of the agency for one month. The cash advance shall **not be used for payment of regular expenses** such as rentals, subscriptions, light and water bills and the like”*.

12.4 The District maintains its PCF in the amount of ₱15,000.00. Post audit of its replenishments as well as liquidation disclosed the following deficiencies:

- a. No Petty Cash Vouchers (PCVs) were prepared and accomplished for the ₱118,913.24 expenses charged against the fund.
- b. Purchases/reimbursements of items for Repairs and Maintenance totaling ₱41,046.00 were paid despite absence of the following:
  - i. Report of pre-inspection
  - ii. Certificate of Inspection and Acceptance of the items procured, and
  - iii. Waste Materials Report
- c. The PCF was used to pay almost all of the office supplies requirement of the District during the year which summed up to ₱26,592.24. No regular procurement of office supplies was noted during the year. With these, it must be noted that office supplies are regular operating requirement of every business entity, hence, should be procured through the modes allowed under the procurement law to be able to obtain the lowest prices available and be able to generate savings;
- d. Representation Expenses amounting to ₱17,995.00 which include payments for meals and snacks were not supported with attendance sheets and details of official activities undertaken to warrant charging against public funds;
- e. Payment of ₱18,500.00 wages to laborers were paid despite absence of DTRs and Accomplishment Reports. Also, receipt of payment by the laborers were not acknowledged, and
- f. Certification of Expenses Not Requiring Receipts (CENRR) with a total value of ₱5,398.00 were used to reimburse costs of procured items which were noted to be from establishments that are usually issuing receipts like GI wire, rubber, diesel, electric – jack hammer and repair of CPU. Under COA Circular 2021-001, CENRR is allowed only when items are purchased from establishments not issuing receipt/invoice.

12.5 Taking into account that these deficiencies were noted in all replenishments of the PCF during the year, it can be inferred that the District had used the fund to pay expenses despite absences of documentary requirements as discussed above. Consequently, the propriety and validity of the expenses charged are doubtful.

#### **12.6 We recommended that Management direct:**

##### **a. The PCF Custodian:**

- i. **To submit justification on the payments of expenses made, as detailed above, despite the absence of supporting documents;**

- ii. To prepare PCVs in all payments charged against the fund, and
- iii. To strictly enjoin the submission of all the supporting documents required under COA Circular No. 2012-001 before paying expenses reimbursed against the fund.

- b. The Procurement Officer of the District to plan and procure office supplies through the modes allowed under the Procurement Law to obtain lowest prices available and to generate savings.

12.7 Management commented that they will comply with the recommendations.

***Procurement of Water Bill Receipts from Non-Recognized Government Printers***

**13. The Water Bill Receipts, an accountable form used by the District to bill concessionaires for their water consumptions were not procured from Recognized Government Printers (RGPs), contrary to Section 24 of General Appropriations Act (GAA) for FY 2022 and as implemented under Government Procurement Policy Board (GPPB) Resolution No. 05-2010 dated October 29, 2010, thus, defeating the purpose of addressing potential security concerns and ensuring high-quality printing services and depriving the government of potential income that could be derived thereto.**

13.1 Section 24 of GAA for FY 2022 provides that all agencies of the government shall engage the services of the National Printing Office, BSP, and APO Production Unit as Recognized Government Printers (RGPs) for the printing of accountable forms and sensitive, high quality or high volume requirements, subject to the following:

- (a) The RGPs shall undertake the printing requirements themselves and shall not sub-contract any portion thereof to other printers; and
- (b) An agency may be allowed to engage private printers for the printing of accountable forms and sensitive, high quality or high volume requirements upon certification by the RGPs that they are unable to service the said requirements. Said engagement of private printers shall be in accordance with R.A. No. 9184, its IRR, and GPPB guidelines.

13.2 In addition, the GPPB Resolution No. 05-2010 dated October 29, 20210 mentioned among others, the following:

- 4.1. The procuring entity shall determine whether a printing expenditure is for an Accountable Form or for a Sensitive High Quality/Volume document.

- 4.2 The procuring entity shall prepare the technical specifications for the Accountable Forms or Sensitive High Quality/Volume printing requirement, which shall include, among others, the prescribed security features, output quantity, and target completion time.
  - 4.3 It shall then conduct a market analysis to determine the Approved Budget for the Contract (ABC) taking into consideration the prevailing standard cost for its printing requirements.
    - 4.3.1. The procuring entity may seek the assistance of the PCOO in determining whether no RGP is capable of undertaking the printing service.
    - 4.3.2 Upon determination by the PCOO that no RGP can undertake the printing service due to time constraints and equipment limitations, the procuring entity may engage the services of private printers.
  - 4.4 Thereafter, the procuring entity shall send a Request for Quotation (RFQ) to the RGPs. The quotations received will be evaluated by the procuring entity to determine which among the RGPs is most capable in performing the printing service in the most advantageous terms for the procuring entity.
- 13.3 The Water Bill Receipts (WBR) or Statement of Account forms for billing purposes, which is one of the Accountable Forms identified in Annex A of the said GPPB Resolution shall be procured through RGPs. This is a regular accountable form used by the District to bill concessionaires for their equivalent cubic and monetary water usage/consumption from a specific point in time or cut-off date for purposes of recording the District's Accounts Receivables arising from water sales.
  - 13.4 Audit of disbursements revealed that WBR amounting to ₱47,530.00 were not procured from RGPs contrary to Section 24 of GAA FY 2022 and GPPB Resolution No. 05-2010 dated October 29, 2010. It should be noted that the printing of Accountable Forms is being regulated to address potential security concerns and to ensure high-quality printing services. Procurement and printing of accountable forms from printers other than the three enumerated RGPs namely: Bangko Sentral ng Pilipinas, National Printing Office and Apo Production Unit, Inc., pose greater risk and danger from manipulation, misuse and counterfeiting that can be undertaken by unscrupulous persons.

- 13.5 Moreover, the acquisition of WBR outside the RGPs does not only evade the modernization, standardization and regulation of the procurement of Accountable Forms of the government but also deprives the latter of potential income that could have been derived thereto.
- 13.6 In spite of the foregoing, verification of documents showed that the District observed the proper procurement process in procuring its WBR through a private printer as contained in the IRR of R.A No. 9184 which include, among others, the Request for Quotation from at least three eligible suppliers, Abstract of Quotation, Purchase Order and Purchase Request. However, while it is allowed by the GPPB Resolution that government agencies can engage the services of a private printer, the District was not able to secure a waiver or certification from RGPs that it cannot undertake such printing services before contracting out a private printer.
- 13.7 As a general rule, all government agencies are mandated to procure all its accountable forms or Sensitive High Quality/Volume document from a RGP. Nonetheless, when RGPs cannot accommodate such printing services, government agencies can engage the services of private printers but subject to pertinent rules and regulations.

**13.8 We recommended that Management:**

- a. Procure its WBRs only from RGPs in accordance with GPPB Resolution No. 05-2010 and applicable provisions of the GAA to address potential security concerns, ensure high-quality printing services and prevent the risk and danger of manipulation, misuse and counterfeiting from unscrupulous persons, and**
- b. In any case, the District is constrained to procure WBRs from private printers, a waiver or a certification from RGPs that they cannot undertake the printing services should first be secured.**

13.9 Management commented that they will comply with the recommendations.

**C. COMPLIANCE WITH TAX LAWS**

***Non-Withholding of Taxes from Honoraria of Board of Directors (BODs) amounting to ₱163,416.00***

**14. Taxes due from honoraria paid to the Board of Directors (BODs) of ₱163,416.00, and payment of expenses totaling ₱51,094.48 were not assessed and withheld by the District, which is not in compliance with Revenue Memorandum Order No. 23-2014 (RMO No. 23-2014), depriving the government of the needed funds to defray its operating expenses.**

- 14.1 RMO No. 23-2014 provides the obligation of the public sector to withhold creditable tax on compensation paid to government employees and on purchases of goods and services, thus, all government offices including government-owned or controlled corporations (such as but not limited to the Bangko Sentral ng Pilipinas, Metropolitan Waterworks and Sewerage System, Philippine Deposit Insurance Corporation, Government Service Insurance System, Social Security System), as well as provincial, city and municipal governments **are constituted as withholding agents** for purposes of the creditable tax on compensation paid to government employees and on purchases of goods and services.
- 14.2 Review of disbursements of the District showed that the BODs as a policy-making body were given honoraria as payment for services rendered. For the year 2022, the amount of ₱163,416.00 was paid to the BODs without any deduction therefrom.
- 14.3 It bears pointing out Section 32(A) of the NIRC of 1997, as amended, which states that:
- “Compensation for services, in whatever form paid and no matter how called, form part of gross income; and that compensation income includes, among others, salaries, fees emoluments, honoraria, allowances, commissions and other income of a similar nature.”*
- 14.4 Applying the quoted internal revenue provision, the honoraria received by the BODs form part of their gross income. Hence, should be subjected to tax. Consequently, the duty of the District as a withholding agent comes into play.
- 14.5 Considering that all payments of honoraria given to the BODs were free of tax, it can be deduced that it is the practice of the District to compensate their BODs with no tax withheld.
- 14.6 On the other hand, it was observed that the District withholds the required taxes on purchases of goods and services except on the payments of surveying services amounting to ₱24,000.00, telephone expenses totaling ₱9,525.28 and rent expenses of ₱17,569.20. These instances may have been overlooked by the District given that taxes of most of its disbursements were noted to be correctly withheld.
- 14.7 Nonetheless, these noted instances of non-withholding of taxes were not in compliance with the duty of the District as a withholding agent, imposed as such in RMO No. 23-2014. That being the case, the Audit Team reminds Management that under the said Revenue Memorandum, sanctions are provided in case of non-compliance, to wit:



A. Failure to Collect and Remit Taxes (Section 251, NIRC)

“Any person required to withhold, account for, and remit any tax imposed by this Code or who willfully fails to withhold such tax, or account for and remit such tax, or aids or abets in any manner to evade any such tax or the payment thereof, shall, in addition to other penalties provided for under this Chapter, be liable upon conviction to a penalty equal to the total amount of the tax not withheld, or not accounted for and remitted.”

Xxx

C. Violation of Withholding Tax Provisions (Section 272, NIRC)

“Every officer or employee of the Government of the Republic of the Philippines or any of its agencies and instrumentalities, its political subdivisions, as well as government-owned or controlled corporations, including the Bangko Sentral ng Pilipinas (BSP), who is charged with the duty to deduct and withhold any internal revenue tax and to remit the same is guilty of any offense herein below specified shall, upon conviction for each act or omission be punished by a fine of not less than Five thousand pesos (P5,000) but not more than Fifty thousand pesos (P50,000) or suffer imprisonment of not less than six (6) months and one (1) day but not more than two (2) years, or both:

1. Failing or causing the failure to deduct and withhold any internal revenue tax under any of the withholding tax laws and implementing rules and regulations; or
2. Failing or causing the failure to remit taxes deducted and withheld within the time prescribed by law, and implementing rules and regulations; or
3. Failing or causing the failure to file return or statement within the time prescribed or rendering or furnishing a false or fraudulent return or statement required under the withholding tax laws and rules and regulations.”

**14.8 We recommended that Management strictly comply with its duty as withholding agent of creditable taxes on compensation paid to its employees**

**and on purchases of goods and services aimed at assisting the government to collect the needed funds which will be used to defray government operating expenses.**

14.9 Management agreed and commented that they will comply with the given recommendation.

***Lapses in the computation of Employees Taxable Income***

**15. The ‘de minimis benefit’ - Cash Gift and exclusion from gross income - Personal Economic Relief Allowance (PERA) were included as taxable income, while the excess of the ₱90,000.00 ceiling of other benefits exemption was considered twice in the computation of taxes due and withheld from the salaries of BWD personnel, contrary to Revenue Regulation (RR) No. 10-2008, thus resulting in the over withholding of taxes on compensation and consequently over remittance of taxes to the Bureau of Internal Revenue (BIR) for the year ended December 31, 2022.**

15.1 Section 1 of RR No. 10-2008 provides that,

Section 2.78 of RR 2-98, as amended, is hereby further amended to read as follows:

Xxx

The following shall be considered as “de minimis” benefits not subject to income tax hence, not subject to withholding tax on compensation income of both managerial and rank and file employees;

Xxx

(h) Gifts given during Christmas and major anniversary celebrations not exceeding ₱5,000.00 per employee per annum;

Xxx

The amount of “de minimis” benefits conforming to the ceiling herein prescribed shall not be considered in determining the ₱30,000.00 ceiling of “other benefits” excluded from gross income under Section 32 (b)(7)(e) of the Code. Provided that, the excess of the “de minimis” benefits over their respective ceilings prescribed by these regulations shall be considered as part of “other benefits” and the employee receiving it will be subject to tax only on the excess over the ₱30,000.00 ceiling.

15.2 Further, Section 3 of the same RR states that,

Section 2.79 of RR 2-98, as amended, is hereby further amended to read as follows:

Xxx

(3) Steps to determine the amount of tax to be withheld.

Xxx

Step 3. Xxx

Representation & Transportation Allowance granted to public officers and employees under the General Appropriations Act and the Personal Economic Relief Allowance (PERA) which essentially constitute reimbursement for expenses incurred in the performance of government personnel's official duties shall not be subject to income tax and consequently to withholding tax.

15.3 The ₱30,000.00 ceiling of 'other benefits' was already increased to ₱90,000.00 under the Train Law.

15.4 Review and verification of the taxes withheld from the salaries of BWD personnel disclosed the following computation of the District:

<b>Basic Annual Salary</b>		1,113,720.00
<b>Add : Allowances</b>		
PERA	24,000.00	
Cash Gift	5,000.00	
YEB	92,810.00	
MYB	92,810.00	214,620.00
<b>Gross Compensation</b>		1,328,340.00
<b>Less: Deductions</b>		
GSIS, PHIC, HDMF	117,134.80	
Other Benefits Ceiling	90,000.00	207,134.80
<b>Taxable Income</b>		1,121,205.20
<b>Add : Taxable Allowance</b>		
Allowance	214,620.00	
less: ceiling	90,000.00	124,620.00
<b>Taxable Compensation Income (TCI)</b>		1,245,825.20
<b>Applicable Bracket:</b>		
>P800,000 to P2,000,000	P130,000 + 30% of excess over P800,000	
	<b>TCI</b>	<b>Tax Due</b>
	800,000.00	130,000.00
	445,825.20	133,747.56
		<b>263,747.56</b>

15.5 As can be culled from the computation, the PERA of ₱24,000.00 which essentially constitute reimbursement for expenses and the 'de minimis' benefit of ₱5,000.00 cash gift given every November were included as taxable income. Likewise, it was observed that the excess of the ₱90,000.00 ceiling of other benefits exemption was considered twice in the computation. Management is reminded that the PERA and the cash gift are explicitly determined to be not subjected to income tax and consequently to withholding tax under the RR as quoted above. Also, the taxable portion of the other benefits received by BWD personnel should only be considered once in the computation. Management admitted that they had overlooked their computation and failed to consider the nature of PERA and cash gift benefits.

- 15.6 The Audit Team recomputed the taxes due from BWD employees and came up with the following sample calculation:

Basic Annual Salary		1,113,720.00
Add : Allowances		
PERA	24,000.00	
Cash Gift	5,000.00	
YEB	92,810.00	
MYB	92,810.00	214,620.00
Gross Compensation		<b>1,328,340.00</b>
Less: Deductions		
GSIS, PHIC, HDMF	117,134.80	
De Minimis		
Cash Gift	5,000.00	
Exclusion		
PERA	24,000.00	
'Other Benefits' ceiling	90,000.00	236,134.80
Taxable Compensation Income (TCI)		<b>1,092,205.20</b>
Applicable Bracket:		
>P800,000 to P2,000,000	P130,000 + 30% of excess over P800,000	
	TCI	Tax Due
	800,000.00	130,000.00
	292,205.20	87,661.56
		<b>217,661.56</b>

- 15.7 As a result, there has been over withholding of taxes on compensation of personnel of the District and consequently excess remittance of taxes to the BIR.

- 15.8 We recommended that Management direct the Accountant to recompute the taxes due from BWD personnel for the year ended December 31, 2022, and to reconcile with the BIR on the amounts over withheld and remitted so that these will be applied as tax credits of BWD personnel for the CY 2023.**

- 15.9 Management acknowledged the observation and commented that they will comply with the recommendations.

#### **D. GENDER AND DEVELOPMENT (GAD)**

16. For CY 2022, the District allocated ₱731,781.00 or 3.28% of the ₱22,292,532.00 Corporate Budget (COB) as GAD Budget. Out of the allocated amount only ₱39,705.00 or 5.42% was utilized. Management disclosed that they were not able to implement what had been planned and budgeted due to insufficiency of funds.

#### **E. COMPLIANCE TO GSIS PAGIBIG AND PHILHEALTH CONTRIBUTIONS**

17. The District remitted GSIS, PAGIBIG and PHILHEALTH mandatory premium contributions, as well as loan amortizations withheld during the year. Details are as follows:

<b>Remittance for CY 2022</b>	
GSIS	538,340.66
PAGIBIG	192,625.18
PHILHEALTH	81,009.93

**F. STATUS OF SETTLEMENT OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES**

18. For CY 2022, the District had no outstanding disallowance, suspension and charge.

## **PART III**

### **STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

## STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATION

Of the 23 prior years' audit recommendations, 5 were implemented, and 18 were not implemented as detailed below:

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>1. The existence and accuracy of the balances of the Property Plant and Equipment accounts with net book value of P41,866,881.72 as of December 31, 2021 could not be ascertained due to a) absence of physical inventory report as at year end, b) non-maintenance of complete and accurate property ledger cards, property cards and c) non-preparation of lapsing schedule for depreciation expenses contrary to Chapter 10 Volume I of the Government Accounting Manual. Hence, PPE accounts may not be fairly presented.</p> <p>We recommended that Management:</p> <p>a. Create an Inventory Committee which shall conduct a complete physical count of all PPEs and results of such inventory-taking shall be reconciled with the books of accounts and adjustment(s), if any,</p>	<p>AAR 2021 (Page 26)</p>	<p>Management commented to create an Inventory Committee and commented to comply.</p>	<p><b>Not Implemented</b></p>

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>shall be immediately effected.</p> <p>Correspondingly, to prepare and submit to the Audit Team the duly certified and approved Report on the Physical Count of PPE (RPCPPE);</p> <p>b. Direct the Accountant to maintain complete and updated GLs/SLs for all PPE accounts and provide the necessary details such as source documents which were the bases in recording thereof;</p> <p>c. Maintain PPELC for each class of PPE account, Report on the Physical Count of Property, Plant and Equipment (RPCPPE) and ensure that all ledger cards contain complete details/description of the property to facilitate reconciliation with the RCPPE;</p> <p>d. Maintain complete property cards with complete information to be reconciled with the PAR; and</p> <p>e. Prepare complete lapsing schedules for all</p>		<p>Management commented to procure and maintain GLs/SLs.</p> <p>Management commented that they will comply.</p> <p>Management commented that they will comply.</p>	<p><b>Not Implemented</b> (Source documents are lacking particularly the old ones)</p> <p><b>Not Implemented</b></p> <p><b>Not Implemented</b></p>



<b>Observation and Recommendation</b>	<b>Reference</b>	<b>Action Taken by Management</b>	<b>Result of Auditor's Validation</b>
depreciable assets and ensure that monthly depreciation is recognized in the books so that cost of all the PPE are allocated over the useful life of the assets.		Management commented that they will comply	<b>Implemented</b>
<p>2. The accuracy, validity, existence and collectability of the Receivable account totalling P1,206,329.96 cannot be ascertained due to absence of supporting schedules/reports, unrecorded other income and various dormant accounts, thus, affecting the fairness of presentation of the balances in the financial statements and depriving the District of additional funds to finance its activities or settle its obligations.</p> <p>We recommended that Management direct the Accountant to:</p> <p>a. Prepare a Subsidiary Ledgers and schedules to support the reported amounts of account receivables;</p> <p>b. Prepare a report showing the cost of unpaid cost of</p>	AAR 2021 (Page 28)	<p>Management commented that they will comply.</p>	<p><b>Implemented</b></p> <p><b>Implemented</b></p>

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>fittings/services and connection materials sold to consumers on account as a basis in recognizing receivable and other income accounts,</p> <p>c. Send a demand letter to the concerned water districts and officials/employees to enforce collection of the amounts due from them; and</p> <p>d. Take appropriate action and have the accounts written-off pursuant to the existing laws, rules and regulations for the amount with remote or nil recovery.</p>		<p>Management commented that they will comply.</p> <p>Management sent demand letters and received by the addressees; some of them had already paid their accounts.</p> <p>Management commented that they will comply.</p>	<p><b>Implemented</b></p> <p><b>Not Implemented</b> (A number of addressees are marginalized or less privileged and could not settle their accounts)</p>
<p>3. The correctness, validity and reliability of the reported balance of the Accounts Payable amounting to P175,935.73 as of December 31, 2021 could not be determined due to unsubstantiated long outstanding payables for more than five years contrary to the Conceptual Framework for Financial Reporting requiring the faithful representation of the accounts in the Financial Statements thereby affecting the total</p>	<p>AAR 2021 (Page 31)</p>		

<b>Observation and Recommendation</b>	<b>Reference</b>	<b>Action Taken by Management</b>	<b>Result of Auditor's Validation</b>
<p>liabilities as well as the equity accounts.</p> <p>We recommended that Management direct the Accountant to:</p> <p>a. Ensure that recording of liabilities is based on valid sources of obligations or valid claims evidence by actual delivery of goods and rendition of services. Likewise, review of the long outstanding payables should be made and effect necessary management actions thereon.</p> <p>b. Submit to the Audit Team the details and proof of existence of accounts payables; and</p> <p>c. Revert the corresponding amounts to the appropriate equity account in accordance with existing rules and regulations, if deemed necessary.</p>		<p>Management commented that correcting journal entries &amp; rectification of other accounting entries is on-going.</p> <p>Management commented that they will comply.</p> <p>Management commented that they will comply.</p>	<p><b>Not Implemented</b></p> <p><b>Not Implemented</b></p> <p><b>Implemented</b></p>
4. Several PPE owned by the District with a total book value of P2,826,274.31 were not insured under the Property Insurance Fund of the GSIS, contrary to pertinent provisions of RA No. 656 or the	AAR 2021 (Page 32)		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>Property Insurance Law, thus it may result in non-indemnification in case of damage or loss of these properties.</p> <p>We reiterated the prior year's recommendation that Management, in compliance with RA No. 656, insure all permanent structures under the Property Insurance Fund of the GSIS in order to be indemnified in case of any loss or damage of its property.</p>		<p>Management commented to follow up previous request and apply for other existing properties under the Property Insurance Fund of the GSIS. Management will apply the insurance of other units once the insurance of the previously applied properties will be issued;</p>	<p><b>Not Implemented</b> (Properties concerned are insured simultaneously but GSIS failed to inspect property locations as required as of date.)</p>
<p>5. The designated property officer remained not bonded, contrary to Section 4.8 of Treasury Circular No. 02-2009, thus, may result in non-restitution in case of any possible defalcation, shortage and unrelieved loss.</p> <p>We reiterated the prior year's recommendation that Management include the designated Property Officer in the application of Fidelity Bond from the Bureau of Treasury.</p>	<p>AAR 2021 (Page 34)</p>	<p>Management commented that they will comply but the Designated Property Officer is not yet bonded.</p>	<p><b>Not Implemented</b></p>
<p>6. Due to the absence of flow meters from the</p>	<p>AAR 2021 (Page 34)</p>		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>main water sources of the District, the reliability and accuracy of the reported Non-Revenue Water (NRW) rate of 15% for CY 2021 is not accurate, thus compliance with LWUA Resolution No. 444 series 2009 on tolerable NRW of 20% could not be assured.</p> <p>We recommended Management to allocate funds for the procurement and installation of flow meters at the source to generate an accurate water production report and to determine the actual NRW rate.</p>		<p>Management procured flowmeters to be installed at Nagsabaran Spring, Bungol Spring, Baracbac Pumping station &amp; Bulbulala Pumping</p>	<p><b>Not Implemented</b> (not all PS were installed with flow meters due to budget constraints)</p>
<p>7. Several deficiencies were noted in the Gender and Development (GAD) activities of the District, contrary to pertinent provisions of Joint Circular No. 2012-01 of PCW, NEDA and DBM, hence, mainstreaming on gender awareness, gender issues through programs, activities and projects were not achieved.</p> <p>Viewed from the foregoing, we</p>	<p>AAR 2021 (Page 36)</p>		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>recommended that Management:</p> <p>a. Prepare a GAD Budget in accordance with Section 6.1 of Joint Circular No. 2012-01 of PCW, NEDA And DBM; and</p> <p>b. Implement GAD activities pursuant to the approved GAD Plan and Budget.</p>		<p>Management commented that they will comply.</p> <p>Management commented that they will comply.</p>	<p><b>Not Implemented</b> The condition still exists for CY 2022. The District allocated only ₱731,781.00 or 3.28% of the 2022 COB which is 1.72% below the 5% minimum requirement.</p> <p><b>Not Implemented</b> For CY 2022, the District implemented only 5.42% of what had been planned and budgeted.</p>
<p>8. Trust Liabilities accounts totaling P1,276,530.53 that remained dormant for more than 2 to 10 years could not be ascertained, due to the absence of necessary supporting documents, contrary to Conceptual Framework for Financial Reporting and Section 4(6) of PD No. 1445, thus affecting the reliability, validity, and accuracy of the accounts in the financial statements.</p> <p>We recommended that Management instruct the Accounting Officer to:</p>	<p>AAR 2020 (Page 25)</p>		

<b>Observation and Recommendation</b>	<b>Reference</b>	<b>Action Taken by Management</b>	<b>Result of Auditor's Validation</b>
<p>a. Review, analyze and validate the dormant customers' deposits account for possible offsetting against outstanding receivables of inactive concessionaires; and</p> <p>b. Exert extra effort to secure the supporting documents to facilitate the review and validation of the long outstanding performance security/guaranty payable.</p>		<p>Management is still in the process of analyzing and validating available records for offsetting against outstanding receivables of inactive concessionaires.</p> <p>Management is still finalizing available records, though not complete to be submitted to the Audit Team to facilitate the review and validation of the recorded guaranty payable.</p>	<p><b>Not Implemented</b></p> <p><b>Not Implemented</b></p>
<p>9. A discrepancy amounting to ₱32,226.53 was noted between the balance per book and the actual physical count of PPE as of December 31, 2018, contrary to Section 58 of PD No. 1445, thus, casting doubt on the accuracy and reliability of the PPE account.</p> <p>We reiterated the prior year's recommendation that Management retrieve all records in order to establish where those water meters were installed or located, thus, the existence of these</p>	<p>AAR 2019 (Page 31)</p>	<p>Management is exerting efforts through subsequent follow ups by gathering feedbacks from concessionaires to trace properties. Some are already dead, have migrated abroad or to</p>	<p><b>Not Implemented</b></p>

<b>Observation and Recommendation</b>	<b>Reference</b>	<b>Action Taken by Management</b>	<b>Result of Auditor's Validation</b>
property can be ascertained.		other localities and even some of the latter's houses no longer exist.	
<p>10. Unserviceable properties with a book value of ₱23,374.80 as of December 31, 2018 were not yet disposed contrary to Section 79 of PD No. 1445, hence, these were exposed to deterioration due to wear and tear and may reduce their saleable values to the disadvantage of the government.</p> <p>We reiterated the prior year's recommendation that Management conduct appraisal of the unserviceable properties to be further evaluated by the COA Regional Technical Service, Regional Office, in order to expedite its disposal.</p>	AAR 2019 (Page 33)	Management was not able to dispose those properties because prospective buyers which were personally contacted/invited could not meet the appraised values of those properties	<b>Not Implemented</b>
11. Absence of Transfer Certificates of Title in favor of the District for parcels of land valued at ₱159,500.00 as well as the three unrecorded land properties rendered the ownership doubtful, contrary to Section 39(2) of the PD No. 1445. In addition, a discrepancy amounting to ₱18,000.00 was noted between books and per deeds of sale.	2018 AAR		



<b>Observation and Recommendation</b>	<b>Reference</b>	<b>Action Taken by Management</b>	<b>Result of Auditor's Validation</b>
<p>We reiterated the prior year's recommendation that Management exhaust all possible legal means in securing the Transfer Certificates of Title to establish ownership of lots valued at ₱159,000.00. we also recommend that the donated lots be recorded in the books based on the market value or appraised value of the property as reflected in the Tax Declaration.</p>		<p>Management commented that the survey at the newly purchased lot in Brgy. Bulbulala where the replacement of PS No. 2 was constructed is underway. Management is anticipating for the Approved Survey Plan for the titling. Management also commented that the applications of title for the Pagleddegan, Baracbac and Calliat are at a waiting stage in accordance with the one at a time schedule of titling.</p>	<p><b>Not Implemented</b></p>
<p>12. Electric generators used in the operation of the District do not have Permit to Operate, which is contrary to Section 1, Part VI, Rule XIX of Department of Environment and Natural Resources (DENR) Administrative Order No. 2000-81 Series of 2000, known as the "Philippine Clean Air Act of 1999". Therefore, these may cause harm to the environment and community due to emission of air pollution from generator sets that were not verified by the DENR.</p>	<p>2018 AAR (Page 27)</p>		

<b>Observation and Recommendation</b>	<b>Reference</b>	<b>Action Taken by Management</b>	<b>Result of Auditor's Validation</b>
<p>We reiterated the prior year's recommendation that Management secure Permit to Operate Air Pollution Installation for all stationary sources of air pollution pursuant to Section 1, Part VI, Rule XIX of the DENR Administrative Order No. 2000-81 Series of 2000.</p>		<p>Management committed to secure first an Environmental Compliance Certificate (ECC) as a requirement before securing a permit to operate air pollution installation for its electric generator. Management had been issued an ECC for its PS in Brgy. Bulbulala only and will apply a Permit to Operate for its electric generator.</p>	<p><b>Not Implemented</b></p>