



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

**ANNUAL AUDIT REPORT**

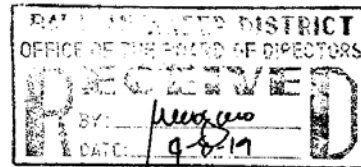
**on the**

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

**For the Year Ended December 31, 2018**



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. 1  
City of San Fernando, La Union  
Tel. No. (072) 888-6780-1



March 15, 2019

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

**Sirs/Mesdames:**

We transmit herewith the report on the comprehensive audit of the accounts and operations of the Balaoan Water District, Balaoan, La Union for the year ended December 31, 2018, in compliance with Section 2, Article IX – D of the Philippine Constitution and pertinent Sections of Presidential Decree No. 1445.

The audit was conducted to ascertain the propriety of financial transactions and compliance with prescribed rules and regulations as well as the efficiency and effectiveness of operations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements.

The report consists of three parts: Part I – Audited Financial Statements, Part II – Audit Observations and Recommendations and Part III – Status of Prior Year's Audit Recommendations. The observations and recommendations were discussed with the concerned management officials and staff in an exit conference held on February 18, 2019. Management's comments are included in the report, where appropriate.

We rendered an unmodified opinion on the fair presentation of the Financial Statements as to the financial position of the Balaoan Water District, Balaoan, La Union as of December 31, 2018, and the results of its operations and cash flows for the year then ended in conformity with Philippine Financial Reporting Standards (PFRS).

The following are the significant observations and recommendations for the CY 2018:

1. A discrepancy amounting to P32,226.53 was noted between the balance per book and the actual physical count of Property, Plant and Equipment (PPE) as of December 31, 2018, contrary to Section 58 of P.D.1445, thus, casting doubt on the accuracy and reliability of the PPE account.

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 property can be ascertained.

2. Absence of Transfer Certificates of Title in favor of the District for parcels of land valued at P159,500.00 as well as the three unrecorded land properties rendered the ownership doubtful, contrary to Section 39(2) of the PD 1445. In addition, a discrepancy amounting to P18,000.00 was noted between per books and per deeds of sale.

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 P159,500.00. We also recommended 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.

3. Several permanent structures owned by the District with a total book value of P886,489.95 were not insured under the Property Insurance Fund of the Government Service Insurance System (GSIS), contrary to pertinent provisions of R.A No. 656 or the Property Insurance Law. Hence, it may result to non-indemnification in case of damage or loss of these properties.

We reiterated the prior year's recommendation that Management, in compliance with R.A No. 656, insure all permanent structures under the Property Insurance Fund of the GSIS in order to be indemnified case of any loss or damage of its property.

4. The Income Payee's Sworn Declaration of Gross Receipts/Sales and Income Payor/Withholding Agent's Sworn Declaration were not duly submitted to the Bureau of Internal Revenue (BIR), contrary to Revenue Regulations (RR) No. 11-2018 dated January 31, 2018, hence, casts doubt on the non-remittance of taxes on per diems amounting to P63,360.00 paid to the Board of Directors (BODs).

We recommended that Management require the BODs to submit their Income Payee's Sworn Declaration of Gross Receipts/Sales. Similarly, the District shall in turn execute its own Income Payor/Withholding Agent's Sworn Declaration stating the number of payees who shall not be subjected to withholding taxes and have it duly submitted to the concerned BIR office pursuant to RR No. 11-2018 dated January 31, 2018.

We also recommended that Management, in the event of non-submission of the above-mentioned sworn declarations, withhold from the director's per diem an amount at equivalent tax rate for remittance to the BIR.

5. 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.

Viewed from the deficiencies noted, we recommended that Management:

- a. Prepare and submit GAD Plan and Budget and GAD Accomplishment Report to Philippine Commission on Women for review and endorsement to establish the GAD relatedness of the activities for implementation;
- b. Prepare a GAD Budget in accordance with Section 6.1 of Joint Circular No. 2012-01 of PCW, NEDA and DBM;
- c. Implement GAD activities pursuant to the approved GAD Plan and Budget; and
- d. Establish and maintain GAD Database which includes sex disaggregated data based on various GAD indicators.

Details of other observations and recommendations were discussed in Part II – Audit Observations and Recommendations of the report.

We request that the comments and observations and recommendations contained in the said report be fully addressed and we would appreciate being informed of the action taken in this regard within sixty (60) days from receipt hereof, pursuant to Section 93 of the General Provisions of Republic Act No. 10964, otherwise known as the General Appropriations Act of 2018, by accomplishing the Agency Action Plan and Status of Implementation attached herewith.

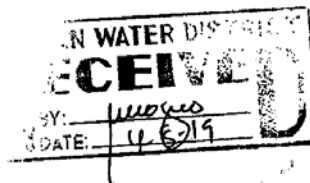
We acknowledge the cooperation extended to the audit team by the officials and staff of the agency.

Very truly yours,

  
**MICHAEL R. BACANI**  
Regional Director



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. 1  
City of San Fernando, La Union  
Tel. No. (072) 888-6780-1



March 15, 2019

**ENGR. VICTOR R. OBILLO**  
**General Manager**  
Balaoan Water District  
Balaoan, La Union

**Dear Manager Obillo:**

We transmit herewith the report on the comprehensive audit of the accounts and operations of the Balaoan Water District, Balaoan, La Union for the year ended December 31, 2018, in compliance with Section 2, Article IX – D of the Philippine Constitution and pertinent Sections of Presidential Decree No. 1445.

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2. Absence of Transfer Certificates of Title in favor of the District for parcels of land valued at P159,500.00 as well as the three unrecorded land properties rendered the ownership doubtful, contrary to Section 39(2) of the PD 1445. In addition, a discrepancy amounting to P18,000.00 was noted between per books and per deeds of sale.

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 P159,500.00. We also recommended 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.

3. Several permanent structures owned by the District with a total book value of P886,489.95 were not insured under the Property Insurance Fund of the Government Service Insurance System (GSIS), contrary to pertinent provisions of R.A No. 656 or the Property Insurance Law. Hence, it may result to non-indemnification in case of damage or loss of these properties.

We reiterated the prior year's recommendation that Management, in compliance with R.A No. 656, insure all permanent structures under the Property Insurance Fund of the GSIS in order to be indemnified case of any loss or damage of its property.

4. The Income Payee's Sworn Declaration of Gross Receipts/Sales and Income Payor/Withholding Agent's Sworn Declaration were not duly submitted to the Bureau of Internal Revenue (BIR), contrary to Revenue Regulations (RR) No. 11-2018 dated January 31, 2018, hence, casts doubt on the non-remittance of taxes on per diems amounting to P63,360.00 paid to the Board of Directors (BODs).

We recommended that Management require the BODs to submit their Income Payee's Sworn Declaration of Gross Receipts/Sales. Similarly, the District shall in turn execute its own Income Payor/Withholding Agent's Sworn Declaration stating the number of payees who shall not be subjected to withholding taxes and have it duly submitted to the concerned BIR office pursuant to RR No. 11-2018 dated January 31, 2018.

We also recommended that Management, in the event of non-submission of the above-mentioned sworn declarations, withhold from the director's per diem an amount at equivalent tax rate for remittance to the BIR.

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NEDA and DBM, hence mainstreaming on gender awareness, gender issues through programs, activities and projects were not achieved.

Viewed from the deficiencies noted, we recommended that Management:

- a. Prepare and submit GAD Plan and Budget and GAD Accomplishment Report to Philippine Commission on Women for review and endorsement to establish the GAD relatedness of the activities for implementation;
- b. Prepare a GAD Budget in accordance with Section 6.1 of Joint Circular No. 2012-01 of PCW, NEDA and DBM;
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We acknowledge the cooperation extended to the audit team by the officials and staff of the agency.

Very truly yours,

  
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Regional Director



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**COMMISSION ON AUDIT**  
Commonwealth Ave., Quezon City

**ANNUAL AUDIT REPORT**

**on the**

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

**For the Year Ended December 31, 2018**



## 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 (P.D.) 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 059 was awarded to the District which entitled the latter to all the rights and privileges authorized under P.D. 198. Balaoan Water District 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 Board of Directors which is the policy-making body of the District are all appointed by the Local Chief Executive as provided in P.D. 198. It is composed of the Chairman of the Board and four members represented by the Professional, Civic, Education, Business and Women Sector. The District is headed by the General Manager who has all the supervision of the District assisted by 13 permanent employees.

### B. Financial Highlights

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

	2018	2017	Percentage of Change
Total Assets	P35,800,958.66	P39,272,650.60	(8.84%)
Total Liabilities	35,931,506.35	35,950,261.61	(0.05%)
Total Equity	(130,547.69)	3,322,388.99	(103.93%)
Total Income	12,987,761.95	11,694,429.10	11.06%
Total Expenses	P16,458,198.63	P10,144,761.55	62.23%

	2018	2017	Percentage of Change
Budget	P16,703,638.00	P15,847,690.00	5.40%
Actual Expenditures	P16,795,993.17	P14,054,865.03	19.50%

### C. Operational Highlights

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

Key Result Area	2018	2017	Percentage of Change
Billing (Water Sales)	P12,250,554.03	P10,977,117.00	11.60%
Collection (Water Sales)	12,219,044.02	10,749,354.15	13.67%
Water Production	417,373 cu. m.	377,053 cu. m.	10.69%
Number of New Connections	237	253	(6.32%)

### D. Audit Scope and Methodology

A comprehensive audit was conducted on the accounts and operations of Balaoan Water District, Balaoan, La Union for the year ended December 31, 2018. The audit consisted of review of operating procedures, inspection of programs and projects, interview with concerned officials and employees deemed necessary.

### E. Auditor's Opinion on the Financial Statements

The Auditor rendered an unmodified opinion on the fair presentation of the Financial Statements as to the financial position of the Balaoan Water District, Balaoan, La Union as of December 31, 2018, and the results of its operations and cash flows for the year then ended in conformity with Philippine Financial Reporting Standards (PFRS).

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

It is worthy to note that District's non-revenue water rate is within the maximum acceptable limit. The District has a 15% non-revenue water (NRW) rate as of December 31, 2018 which is below the maximum acceptable NRW rate of 30% pursuant to Local Water Utilities Administration (LWUA) Memorandum Circular No. 011-18 dated June 1, 2018. Thus, the District's implementation of non-revenue water reduction program was found effective and efficient.

We commended the District for the efficient and effective implementation of non-revenue water reduction program.

However, presented on next page are the significant Audit Observations and Recommendations which affects the operations and performance of the District. These were discussed with the Agency officials concerned during the exit conference and their corresponding comments were incorporated in Part II of the report, where appropriate:

1. A discrepancy amounting to P32,226.53 was noted between the balance per book and the actual physical count of Property, Plant and Equipment (PPE) as of December 31,

2018, contrary to Section 58 of P.D.1445, thus, casting doubt on the accuracy and reliability of the PPE account.

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Viewed from the deficiencies noted, we recommended that Management:

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- d. Establish and maintain GAD Database which includes sex disaggregated data based on various GAD indicators.

**G. Summary of Total Suspensions, Disallowances and Charges as of Year-End.**

For the Calendar Year 2018, the District has P10,000.00 disallowances, P1,223,961.84 suspensions and 0.00 charges.

**H. Status of Prior Year's Audit Recommendations**

Out of the 12 prior years' audit recommendations, six were fully implemented, one was partially implemented and five were not implemented, which are reiterated in Part III of the report.

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**PART I**

**AUDITED FINANCIAL STATEMENTS**



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Office of the Supervising Auditor  
**CGS 7-A – WATER DISTRICTS AND  
OTHER STAND ALONE AGENCIES**  
Regional Office No. I  
City of San Fernando, La Union

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**INDEPENDENT AUDITOR'S REPORT**

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

**Unmodified Opinion**

We have audited the financial statements of Balaoan Water District, Balaoan, La Union which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in net assets/equity and statement of cash flows of the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Balaoan Water District as at December 31, 2018, and its comprehensive income and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

**Basis for Unmodified Opinion**

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.

**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 misstatement, whether due to fraud or error.


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

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material 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:

  
**EVELYN A. NISPEROS**  
Supervising Auditor

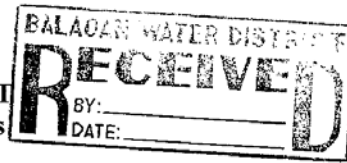
February 28, 2019





**BALAOAN (LU) WATER DISTRICT**  
National Highway, Dr. Camilo Osias  
Balaoan, La Union

Email address: bbalaoanwaterdistrict@yahoo.com  
Tel. No. (072) – 607-0360



### **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, 2018, 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 statements 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.

The Commission on Audit has audited the financial statements of the Balaoan Water District, Balaoan, La Union in accordance with the International Standards of Supreme Audit Institutions (ISSAI) and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors

**HERMOGENES M. ANCHETA**  
Chairman of the Board  
January 31, 2019  
Date Signed



**ALORNA L. CASTILLO**  
Cashier B/Acting Accounting Processor  
January 31, 2019  
Date Signed

**ENGR. VICTOR R. OBILLO**  
General Manager  
January 31, 2019  
Date Signed

**BALAOAN WATER DISTRICT**  
Balaoan , La Union  
**Detailed Statement of Financial Position**  
December 31, 2018  
(with comparative figures for CY 2017)

<u>ASSETS</u>	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<b>Current Assets</b>			
<b>Cash and Cash Equivalent</b>			
Cash on hand			
Cash-Collecting Officer	2	18,793.22	40,608.51
Pretty Cash Fund			15,000.00
Cash in Bank	3		
Cash in Bank,Local Currency-CA		2,154,971.25	2,580,264.59
Cash in Bank,Local Currency-SA		1,031,807.13	955,999.96
Total		<u>3,205,571.60</u>	<u>3,591,873.06</u>
<b>Receivables</b>			
Loans and Receivables			
Accounts Receivable	4	795,132.40	809,942.42
Allowance for Impairment-AR		(139,980.01)	(109,565.01)
Inter-Agency Receivables			
Due from Government Corporation	5	64,089.45	64,089.45
Advances			
Advance to Officers and Employees			573.00
Other Receivables			
Receivable Disallowances/Charges	6	162,249.60	162,249.60
Due from Officers and Employees	7	54,586.66	160,129.82
Other Receivables	8	95,081.20	1,538.04
Total		<u>1,031,159.30</u>	<u>1,088,957.32</u>
<b>Inventories</b>			
	9		
Inventory Held for Sale			
Merchandise Inventory		190,483.65	106,206.19
Inventory Held for Consumption			
Accountable Forms,Plates & Stickers Inventory		68,741.18	124,093.68
Inventory Held for Distribution			
Construction Material Inventory		93,563.27	293,974.15
Chemical & Filtering Material Inventory		30,089.65	20,648.15
Total		<u>382,877.75</u>	<u>544,922.17</u>

<b>Other Assets</b>			
Prepayments			
Prepaid Rent		10,000.00	10,000.00
Other Prepayments		23,805.11	4,964.33
Total		<u>33,805.11</u>	<u>14,964.33</u>
<b>Total Current Assets</b>		4,653,413.76	5,240,716.88
<b>Non-Current Assets</b>			
<b>Property, Plant and Equipment</b>			
	10		
Land		159,500.00	159,500.00
Land			
Infrastructure Assets			
Water Supply Systems		47,571,150.84	45,564,306.94
Accu. Dep-Water Supply Systems		(17,358,710.57)	(12,543,015.94)
Machinery and Equipment			
Office Equipment		49,130.50	39,080.50
Accu. Dep-Office Equipment		(37,202.32)	(34,568.40)
Information & Comm. Tech. Equip.		385,513.00	328,463.00
Accu. Dep-Information & Comm. Tech. Equip.		(229,514.02)	(187,503.74)
Other Machineries and Equipment		383,543.60	333,943.60
Accu. Dep-Other Machineries and Equipment		(172,288.62)	(141,336.18)
Communication Equipment		6,600.00	6,600.00
Accu. Dep-Communications Equipment		(5,544.00)	(4,356.00)
Furnitures, Fixtures & Books			
Furniture and Fixture		218,800.42	201,682.42
Accu. Dep-Furniture and Fixture		(138,172.39)	(113,900.94)
Transportation Equipment			
Motor Vehicle		62,300.00	62,300.00
Accu. Dep-Motor Vehicle		(57,238.12)	(57,238.12)
Other Transportation Equipment		570,000.00	570,000.00
Accu. Dep-Other Transportation Equipment		(319,200.00)	(210,900.00)
Total		<u>31,088,668.32</u>	<u>33,973,057.14</u>
Construction-in-Progress			
Construction in Progress -Infrastructure			
Total		<u>31,088,668.32</u>	<u>33,973,057.14</u>
<b>Other Assets</b>			
Other Assets			
Other Asstes	11	<u>58,876.58</u>	<u>58,876.58</u>
<b>Total Non-Current Assets</b>		<u>31,147,544.90</u>	<u>34,031,933.72</u>
<b>Total Assets</b>		<b>P <u>35,800,958.66</u></b>	<b>P <u>39,272,650.60</u></b>

## **LIABILITIES AND EQUITY**

### **Current Liabilities**

#### **Financial Liabilities**

##### **Payables**

Due to officers and employees	12	79,200.00	79,200.00
Interest Payable			
<b>Total</b>		<u>79,200.00</u>	<u>79,200.00</u>

#### **Inter-agency Payables**

##### **Inter-agency Payables**

Due to BIR	13	83,325.34	53,332.95
Due to GSIS	14	73,108.89	62,312.22
Due to Pag-ibig	15	13,229.03	17,383.55
Due to Philhealth	16	3,157.07	2,375.00
Due to NGAs	17	184,457.93	222,357.70
Due to Government Corporations	18	15,605.45	15,605.45
<b>Total</b>		<u>372,883.71</u>	<u>373,366.87</u>

#### **Trust Liabilities**

##### **Trust Liabilities**

Guaranty/Security Deposits Payable	19	936,278.58	792,335.62
Bail Bonds Payable	20	93,622.84	93,622.84
<b>Total</b>		<u>1,029,901.42</u>	<u>885,958.46</u>

#### **Other Payables**

##### **Other Payables**

Other Payable	21	123,057.46	123,057.46
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#### **Total Current Liabilities**

	<u>1,605,042.59</u>	<u>1,461,582.79</u>
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### **Non-Current Liabilities**

#### **Financial Liabilities**

##### **Loans Payable**

Loans Payable- Domestic	22	31,699,380.35	31,536,595.45
Other Deferred Credits		2,627,083.41	2,952,083.37

#### **Total Liabilities**

	<u>35,931,506.35</u>	<u>35,950,261.61</u>
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#### **Equity**

##### **Government Equity**

##### **Government Equity**

Government Equity	23	157,905.75	157,905.75
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##### **Retained Earnings**

Retained Earnings		
Retained Earnings	<u>(288,453.44)</u>	<u>3,164,483.24</u>
<b>Total Equity</b>	<u>(130,547.69)</u>	<u>3,322,388.99</u>
<b>Total Liabilities and Equity</b>	<b>P <u>35,800,958.66</u></b>	<b>P <u>39,272,650.60</u></b>

See Accompanying Notes to Financial Statements

**BALAOAN WATER DISTRICT**  
Balaoan, La Union  
**Detailed Statement of Comprehensive Income**  
Period Ended December 31, 2018  
(with comparative figures for 2017)

	Notes	2018	2017
<b>Revenue:</b>			
Business Income			
Waterworks Systems Fees	24	P 11,927,390.23	P 10,717,779.60
Other Business Income	25	434,399.01	415,639.45
Fines and penalties-Business Income		297,869.85	259,537.40
Interest Income		3,102.90	3,556.02
Inc. fr. Grants and Donations In Cash		324,999.96	297,916.63
<b>Total</b>		<b>P 12,987,761.95</b>	<b>P 11,694,429.10</b>
<b>Less: Expense</b>			
<b>    Personal Services</b>			
Salaries and Wages			
Salaries and Wages-Regular	P	3,031,809.10	P 2,431,732.00
Labor and Wages		144,187.50	293,922.62
Other Compensations			
Personnel Economic Relief Allowance		284,000.00	221,000.00
Representation Allowance		60,000.00	57,500.00
Transportation Allowance		60,000.00	57,500.00
Clothing/Uniform Allowance		72,000.00	45,000.00
Honoraria		192,852.00	185,128.00
Overtime and Night Pay		154,972.66	90,580.26
Cash Gift		60,000.00	45,000.00
Other Bonuses and Allowance		570,312.00	399,562.00
Personnel Benefit Contributions			
Retirement and Life Insurance Prem.		335,169.39	286,336.32
Pag-ibig Contributions		14,000.00	10,900.00
Philhealth Contributions		35,137.47	25,125.00
Employees Comp. Insurance Prem.		14,100.00	10,800.00
Other Personnel Benefits			
Other Personnel Benefits		243,693.38	274,202.74
<b>Total Personal Services</b>	P	<b>5,272,233.50</b>	<b>P 4,434,288.94</b>
<b>Maintenance and Other Operating Expenses</b>			
Traveling Expenses			
Traveling Expense-Local	P	156,271.00	P 166,499.00
Training Expense		29,400.00	34,700.00
Supplies And Materials Expenses			
Office Supplies Expense		88,723.46	136,690.70



Accountable Form Expense	104,452.50	
Fuel, Oil And Lubricants Expenses	363,339.50	269,136.20
Chemical & Filtering Supplies Expenses	204,638.50	255,651.45
Utilities Expense		
Electricity Expense	2,175,529.00	1,708,850.34
Postage and Courier Services	1,825.00	2,415.00
Telephone Expenses	28,229.27	40,695.39
Professional Services		
Legal Services	3,090.00	2,550.00
Auditing Services	209,485.98	16,729.65
Other Professional Services	8,000.00	7,500.00
Repair and Maintenance		
Repairs and Main-Machinery and Equipment	19,035.00	6,950.00
Repairs and Main-Furniture and Fixtures		
Repairs and Main-Semi-Expendable Ma&E	2,900.00	4,750.00
Repairs and Main-Transportation Equipt	49,781.00	55,843.00
Repairs and Main-Infrastructure Assets	421,638.20	818,077.04
Donations		6,500.00
Extraordinary and Miscellaneous Expenses	479,422.75	169,404.00
Taxes, Duties and Licenses	286,609.84	270,988.74
Fidelity Bond Premium	3,000.00	3,000.00
Insurance Expenses	1,672.94	3,146.47
Other Maintenance and Operating Expenses		
Member. Dues & Contribution to Organization	10,800.00	16,753.00
Advertising, Promotional&Marketing Expenses	40,460.00	29,993.00
Printing and Publication Expenses	2,388.00	7,759.40
Rent/Lease Expenses	86,784.60	83,986.00
Representation Expense	68,902.87	179,736.84
Subscription Expense		1,500.00
<b>Total Maint. And Other Operating Expenses</b>	<b>P 4,846,379.41</b>	<b>P 4,299,805.22</b>
<b>Financial Expenses</b>		
Financial Expenses		
Bank Charges	P 3,130.00	P 1,650.00
Interest Expenses	1,280,990.00	270,117.00
<b>Total Financial Expense</b>	<b>P 1,284,120.00</b>	<b>P 271,767.00</b>
<b>Non-Cash Expenses</b>		
Depreciation		
Depreciation - Buildings and Other Structure	P 23,691.95	P 16,086.00
Depreciation - Machinery and Equipment	76,784.64	55,451.31
Depreciation - Furniture, Fixture and Books	24,271.45	24,208.08
Depreciation - Transportation Equipment	108,300.00	108,300.00
Depreciation - Other PPE	4,792,002.68	930,837.77
<b>Impairment Loss - Loans and Receivables</b>		
Impairment Loss-loans & Receivables	30,415.00	4,017.23
<b>Total Non-Cash Expenses</b>	<b>P 5,055,465.72</b>	<b>P 1,138,900.39</b>



<b>Total Expenses</b>	P <u>16,458,198.63</u>	P <u>10,144,761.55</u>
<b>Net Income</b>	P <u><u>(3,470,436.68)</u></u>	P <u><u>1,549,667.55</u></u>

See Accompanying Notes to Financial Statements

**BALAOAN WATER DISTRICT**  
Balaoan, La Union  
**Statement of Changes in Equity**  
Period Ended December 31, 2018  
(with comparative figures for CY 2017)

	2018	2017
<b>Government Equity</b>		
Balance at Beginning of Period	P 157,905.75	P 3,407,905.75
Reclassification of Capital Accounts		(3,250,000.00)
Additions/Deductions		
<b>Balance at End of the Period</b>	<b>P 157,905.75</b>	<b>P 157,905.75</b>
 <b>Retained Earnings</b>		
Beginning Balance	P 3,164,483.24	P 1,619,829.46
Add: Income and Expense Summary	(3,470,436.68)	1,549,667.55
Prior Period Adjustments	17,500.00	(5,013.77)
<b>Ending Balance:</b>	<b>P (288,453.44)</b>	<b>P 3,164,483.24</b>
 <b>TOTAL EQUITY</b>	 <b>P (130,547.69)</b>	 <b>P 3,322,388.99</b>

**BALAOAN WATER DISTRICT**  
Balaoan, La Union  
**Cash Flow statement**  
Period Ended December 31, 2018  
(with comparative figures for CY 2017)

	2018	2017
<b>Cash Inflows</b>		
Collection of Income from water sales	P 12,218,444.02	P 8,685,098.49
Collection of Income from penalty charges	297,869.85	259,537.40
Collection of Income from Misc. Service Revenues	901,283.49	415,639.45
Interest from various bank deposits	3,102.90	3,556.02
Others	208,004.67	2,708,094.00
<b>TOTAL Cash Outflow</b>	<u>P 13,628,704.93</u>	<u>P 12,071,925.36</u>
<b>Cash Outflows</b>		
Payment of operating expenses	P (4,266,312.22)	P (4,275,466.96)
Payment of Payables	(7,252,488.63)	(5,983,958.99)
<b>TOTAL Cash Outflow</b>	<u>P (11,518,800.85)</u>	<u>P (10,259,425.95)</u>
<b>Net Cash from (used in) operating activities</b>	<u>P 2,109,904.08</u>	<u>P 1,812,499.41</u>
<b>Cash Flow from Investing Activities</b>		
<b>Cash Inflows</b>		
<b>Cash Outflows</b>		
Construction of Other Structure	P (245,814.04)	P (3,910,103.48)
Purchase of Equipments	(91,980.50)	
<b>Net cash from (used in) investing activities</b>	<u>P (337,794.54)</u>	<u>P (3,910,103.48)</u>
<b>Cash Flow From Financing Activities</b>		
<b>Cash Inflows</b>		
<b>Cash Outflows</b>		
Payment of Loan	P (2,158,411.00)	P (846,046.00)
<b>Net cash from (used in) financing activities</b>	<u>P (2,158,411.00)</u>	<u>P (846,046.00)</u>
<b>Net increase in Cash and Cash Equivalents</b>	P (386,301.46)	P (2,943,650.07)
Add: Cash and Equivalent, Beginning	3,591,873.06	6,535,523.13
<b>Cash &amp; Cash Equivalents, Ending</b>	<u><u>P 3,205,571.60</u></u>	<u><u>P 3,591,873.06</u></u>

**BALAOAN WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018**

**GENERAL**

**a. Historical Background**

Balaoan Water District 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 Balaoan Water District (BWD). Following its formation, the BWD acquired ownership and management of the entire system in accordance with Presidential Decree (P.D) 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.

Like any other water district, the 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 perform these functions, BWD obtained technical and financial assistance from the Local Water Utilities Administration (LWUA).

On July 28, 1978, the Conditional Certificate of Conformance 059 was awarded to the District after it had complied with the LWUA's minimum requirements for the certificate program. This certificate entitled the district to all the rights and privileges authorized under P.D. 198.

At present the water district falls under the 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 1,896 water and sewer concessionaires covering 26 barangays of this municipality.

**b. Objective/Purposes**

As mandated by P.D. 198, otherwise known as the Local Water Utilities Act, all Water District has the following purposes.

1. To acquire, install, improve, maintain and operate water supply and distribution system for domestic use;
2. To provide, maintain, and operate waste water collections treatment and disposal facilities, and

3. To conduct such other functions and operations incidental to water resource development, utilization and disposal within the district, as are necessary or incidental to said program.

**c. Organizational Set-Up**

The Board of Directors is the policy-making body of the District. It is composed of five members appointed by the Mayor as provided in P.D. 198.

The following are the members of the Board as of December 31, 2015 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. Ordone	Member	Women

**ACCOUNTING POLICIES AND EXPLANATIONS NOTES**

**Note 1 - Summary of Significant Accounting Policies:**

- a. The Water District adopts the Philippine Financial Reporting Standards or PFRS.
- b. The accrual method of accounting for revenues and expenses is used. Revenues are recorded in the period in which the service provided and expenses are recorded in period in which the benefit was received.
- c. The Property Plant and Equipment is carried at cost less accumulated depreciation. The cost of maintenance and repair is charged to expense as incurred while significant renewals and betterment are capitalized. Depreciation is computed based on the straight-line method. Estimated useful lives of the assets ranges from 5 to 50 years.

**Note 2 – Cash-Collecting Officer**

It represents undeposited collections on December 29, 2018 which were deposited on January 3, 2019. 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.

**Note 3– Cash in Bank**

This account is composed of the following as presented below:

Account	2018	2017
Local Currency, CA-LBP EFPS	P 106,610.45	P 102,440.44
Local Currency, CA-RB	332,056.89	489,465.94
Local Currency, CA-LBP KFW		166,225.53
Local Currency, CA-LBP GF	1,716,303.91	1,822,132.68
Local Currency, SA_LBP Reserve	215,513.52	215,338.81
Local Currency, SA-LBP Customer Dep	816,293.61	740,661.15
<b>TOTAL</b>	<b>P3,186,778.38</b>	<b>P3,536,264.55</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 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.

**Note 4 – Accounts Receivable**

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

**Note 5– Due from Government Corporation**

This is composed of unpaid materials and fittings barrowed by other Water District as presented below:

<b>Name of GOCC</b>	<b>2018</b>	<b>2017</b>
Sta. Lucia Water District	P 6,555.55	P 6,555.55
Tagudin Water District	57,533.90	57,533.90
<b>Total</b>	<b>P64,089.45</b>	<b>P64,089.45</b>

**Note 6- 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>2018</b>	<b>2017</b>
Amor Benigno	P 31,926.00	P 31,926.00
Darren Fernandez	14,542.00	14,542.00
Edgar Orallo	19,786.00	19,786.00
Jesus Ostrea Jr.	1,452.00	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>P 162,249.60</b>	<b>P162,249.60</b>

**Note 7 – Due from Officers and Employees**

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

<b>Names</b>	<b>2018</b>	<b>2017</b>
Joeneseph Natura	P 0.00	P 93,543.16
GM Victor Obillo/Marlinda Obille	54,586.66	66,586.66
<b>Total</b>	<b>P54,586.66</b>	<b>P160,129.82</b>

**Note 8 – Other Receivables**

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

**Note 9 – Inventories**

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

**Notes 10 – 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.

**Note 11 – Other Assets**

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

**Note 12 – Due to Officers and Employees**

This account sets up the liability account of the WD to the members of the Board of Directors representing the approved Performance Based Bonus (PBB) for the Year 2017 as per EO 65 and terminal benefit of employee.

Payee	2018	2017
BOD	P79,200.00	P79,200.00
<b>TOTAL</b>	<b>P79,200.00</b>	<b>P79,200.00</b>

**Note 13 – Due to BIR**

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

**Notes 14 – Due to GSIS**

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



**Note 15– Due Pag-ibig**

This includes Pag-ibig employee share which are withheld and due for remittance to Pag-ibig.

**Note 16 – Due to Philhealth**

This includes Philhealth employee share which are withheld and paid due for remittance to Philhealth.

**Note 17 – Due to NGA’s**

This sets up the liability account of the district with that of the Commission on Audit for audit fees from 2016 to 2017.

**Note 18 – Due to GOCC’s**

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

**Note 19 – Guaranty Deposit Payable**

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.

**Note 20 – Bail Bond Payable**

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

**Note 21 – Other Payable**

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

**Note 22 – Loans Payable- Domestic**

This account represents the outstanding loan balance granted by the Local Water Utilities Administration (LWUA) for the implementation of the projects of the District under the following Loan Account No. are as follows.

3 – 590 Construction of WD level III project by Administration which includes the Drilling of 1 test/production well Brgy. Bulbulala, Balaoan, La Union.

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.

9 – 0607 A financial assistance under the Salinbuntig program for water supply development project consisting of 50% loan and 50% grant effective February 2016.

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).

**Note 23– Government Equity**

This account comprises the contribution for the operation of the water district from the Municipal government of Balaoan and donated capital from other sources.

**Note 24– Waterworks System Fees**

This represents income from billed water sales.

**Note 25 – Other Business and Services Incomes**

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

## **PART II**

### **AUDIT OBSERVATIONS AND RECOMMENDATIONS**

## PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS

### A. FINANCIAL AND COMPLIANCE

Unreconciled discrepancy of Property, Plant and Equipment amounting to P32,226.53

1. A discrepancy amounting to P32,226.53 was noted between the balance per book and the actual physical count of Property, Plant and Equipment (PPE) as of December 31, 2018, contrary to Section 58 of P.D.1445, thus, casting doubt on the accuracy and reliability of the PPE account.

Section 58 of P.D.1445 states the following:

*"Audit of assets. The examination and audit of assets shall be performed with a view to ascertaining their existence, ownership, valuation and encumbrances as well as the propriety of items composing the respective asset accounts, determining their agreement with records; proving the accuracy of such records; ascertaining if the assets were utilized economically, efficiently and effectively; and evaluating the adequacy of controls over the accounts."*

A discrepancy amounting to P32,226.53 was disclosed between the balance per books and per actual physical count, as shown below:

Per Book, 12/31/18	P33,973,057.14
Per Actual Count	<u>33,940,830.61</u>
<b>Difference</b>	<b><u>P 32,226.53</u></b>

Verification of Schedule of PPEs revealed that the discrepancy pertains to the installed water meters recorded under the account title "Water Supply Systems" account. Management informed the Audit Team that it has been a previous practice of the District way back CY 2004, where water meters are not sold, but rather form part of the PPE when installed to concessionaires upon connection.

However, the District has no available records where these water meters were installed. Consequently, the quantity of installed water meters cannot be determined, thus leaving no audit trail in order to trace those property. Henceforth, the existence and accuracy of these property are doubtful. This is a reiteration of prior year's audit recommendations.

**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 property can be ascertained.**

Management commented that they will comply with the given recommendation

**Non-titling of land properties valued at P159,500.00**

2. **Absence of Transfer Certificates of Title in favor of the District for parcels of land valued at P159,500.00 as well as the three unrecorded land properties rendered the ownership doubtful, contrary to Section 39(2) of the PD 1445. In addition, a discrepancy amounting to P18,000.00 was noted between per books and per deeds of sale.**

Section 39(2) of the PD 1445 states that:

*"In the case of deeds to property purchased by any government agency, the Commission shall require a certificate of title entered in favor of the government or other evidence satisfactory to it that the title is in the government."*

Parcels of land valued at P159,500.00 were not evidenced by Transfer Certificates of Title in favor of the District, as shown below:

Location	Available Document	Amount Per Book
Brgy. Pagleddegan, Balaoan, La Union	Tax Declaration (TD) No. 2009-05-0026-00126, under the name of Sps. Lito and Agnes Bucasas	P 54,000.00
	Deed of Absolute Sale dated January 17, 2014	
Brgy. Baracbac Oeste, Balaoan, La Union	TD No. 009-00397 under the name of Balaoan Water District	52,500.00
	Deed of Sale dated July 27, 2015	
Brgy. Antonino, Balaoan, La Union	Deed of Sale dated June 18, 1981	35,000.00
Brgy. Bungol, Balaoan, La Union	Tax Declaration (TD) No. 2009-05-0012-00500 under the name of Balaoan Water Shed	0.00
Brgy. Camilo Osias, Balaoan, La Union	TD No. 2009-05-0003-00500 under the name of Balaoan Water District	0.00
	TD No. 2009-05-0003-00499 under the name of Balaoan Water District	0.00
<b>Total Per Available Deed of Sale</b>		<b>141,500.00</b>
<b>Total per Book</b>		<b>P159,500.00</b>
<b>Difference</b>		<b>P18,000.00</b>

Three parcels of land located at Brgy. Pagleddegan, Brgy. Baracbac Oeste, and Brgy. Antonino, Balaoan, La Union, which are currently used by the District, were not yet transferred under the name of the District and the same were not yet recorded in the books. Inquiry from Management revealed that the unrecorded parcels of land were previously donated by the Municipality of Balaoan and other private individuals in favor of the District. These properties should be titled and recorded in the books albeit, acquired through donation.

Also, two land properties located at Brgy. Bungol and Camilo Osias remained unrecorded and untitled. Consequently, ownership of the above-mentioned parcels of land remained doubtful.

Moreover, a discrepancy amounting to P18,000.00 was noted between amount recorded per books against per available records of deed of sale, which casts the Land account unreliable and inaccurate. This is a reiteration of prior year's audit recommendations.

**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 P159,500.00. We also recommended 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.**

Management commented that the land located in Bungol and Antonino were already titled but under the name of the previous owner. Management further commented that they will comply with the given recommendation.

#### **Properties with a book value of P888,489.95 were not insured**

- 3. Several permanent structures owned by the District with a total book value of P886,489.95 were not insured under the Property Insurance Fund of the Government Service Insurance System (GSIS), contrary to pertinent provisions of R.A No. 656 or the Property Insurance Law. Hence, it may result to non-indemnification in case of damage or loss of these properties.**

Pertinent provisions of R.A No. 656 or the Property Insurance Law dated June 16, 1951 provides the following:

*"Section 2. In order to indemnify or compensate the Government as defined in this Act for any damage to, or loss of, its properties due to fire, earthquake, storm, or other casualty there is hereby established the "Property Insurance Fund", Xcx"*

*Section 4. Definitions.— For the purposes of this Act—*

(c) "Property" includes vessels and craft, motor vehicles, machineries, permanent buildings, properties stored therein, or in buildings rented by the Government, or properties in transit.

(d) The word "Government" as used in this Act refers to the National, provincial, city, or municipal government, agency, commission, board or enterprises owned or controlled by the Government.

*Section 5. Every government, except a municipal government below first class, is hereby required to insure its properties, with the Fund against any insurable risk herein provided and pay the premiums thereon, which, however, shall not exceed the premiums charged by private insurance companies Xxx"*

Verification of records revealed that the following buildings and other permanent structures were not yet insured under the Property Insurance Fund of GSIS and may result to non-indemnification in case of loss or damage:

Particulars	Cost	Accumulated Depreciation	Book Value
Building (Pump House 2) with perimeter fence	P 150,000.00	P 71,624.46	P 78,375.54
Steel Reservoir	350,000.00	47,979.35	302,020.65
Pump Station No. 3 - Baracbac Oetse	214,010.00	24,254.50	189,755.50
Pump Station No. 4 (pumphouse)	344,470.00	28,131.74	316,338.26
Total	<b>P1,058,480.00</b>	<b>P171,990.05</b>	<b>P886,489.95</b>

An insurance is a form of protection against a possible loss or damage. The purpose of the insurance is to reduce the agency's exposure to the effects of particular risks. Thus, the inability of management to insure their properties is an indication that it has a weak internal control with respect to the custodianship, safeguarding and issuance/utilization of the District's properties. This deficiency is not yet complied, hence, deemed reiterated.

**We reiterated the prior year's recommendation that Management, in compliance with R.A No. 656, insure all permanent structures under the Property Insurance Fund of the GSIS in order to be indemnified case of any loss or damage of its property.**

Management assured the Audit Team that they will coordinate with GSIS La Union Branch for the requirements in the application of insurance of District's building and permanent structures.

**Undisposed unserviceable properties amounting to P23,374.80**

4. Unserviceable properties with a book value of P23,374.80 as of December 31, 2018 are not yet disposed contrary to Section 79 of PD 1445, hence, these were exposed to deterioration due to wear and tear and may reduce their saleable values to the disadvantage of the government.

Section 79 of PD 1445 provides for the regulations in the disposal of unserviceable government properties, thus:

*“Destruction or sale of unserviceable property. When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee on award xxx”*

In the physical inventory taking conducted by Management witnessed by the Audit Team, it was observed that properties with a total net book/salvage value of P23,374.80 were already unserviceable and for disposal. These properties are located in various pumping stations and stockroom and have become eyesores. Detailed list of unserviceable properties are shown below:

Description	Cost	Accumulated Depreciation	Carrying Amount	Status
<b>Art Wells, Reservoir, PS and Conduits</b>				
AVR Generator Set	P 22,500.00	P 20,250.00	2,250.00	Fully Depreciated
Metering Pump	141,368.00	127,231.20	14,136.80	Fully Depreciated
<b>Sub-total</b>	<b>163,868.00</b>	<b>147,481.20</b>	<b>16,386.80</b>	
<b>IT Equipment and Software</b>				
Computer with complete accessories	35,180.00	31,662.00	3,518.00	Fully Depreciated
Monitor/CPU - PS 1	7,500.00	6,750.00	750	Fully Depreciated
HP Officejet 4355 All in One	3,700.00	3,330.00	370	Fully Depreciated
<b>Sub-total</b>	<b>46,380.00</b>	<b>41,742.00</b>	<b>4,638.00</b>	
<b>Other Machineries</b>				
2HP Compressor	23,500.00	21,150.00	2,350.00	Fully Depreciated



<b>Sub-total</b>	<b>23,500.00</b>	<b>21,150.00</b>	<b>2,350.00</b>	
<b>TOTAL</b>	<b>P233,748.00</b>	<b>P210,373.20</b>	<b>P23,374.80</b>	

The delayed disposal of these unserviceable properties caused further deterioration due to stock up, wear and tear, and may reduce saleable values to the disadvantage of the government. Accordingly, the district was deprived of the additional income that could have been obtained had these been sold.

Furthermore, while the agency created a Disposal Committee, no action was taken on the disposal such as appraisal of the unserviceable property to be further evaluated by the Regional Technical Service of the Commission. This is a reiteration of prior year's audit recommendations.

**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.**

Management commented that they will comply with the given recommendation.

#### **Designated Property Officer not included in the Fidelity Bond**

- 5. The designated property officer is not included in the Fidelity Bond list, hence remain not bonded, contrary to Section 4.8 of Treasury Circular No. 02-2009, thus, may result to non-restitution in case of any possible defalcation, shortage and unrelieved loss.**

Section 4.8 of Treasury Circular No. 02-2009 dated August 6, 2009 provides that:

*"A public officer whose fidelity is insured in the Fidelity Fund shall, from the moment he assumes the duties of the office, is considered bonded to the government for the faithful performance of all duties imposed upon him by law, and for the faithful accounting of all funds, and public properties coming into his possession, custody or control, Xxx. The Fidelity Fund shall be available for the purpose of replacing defalcations, shortages, unrelieved losses in the accounts of bonded public officers, for the payment of fees and costs incident to civil proceedings brought against them to recover sums paid on their account from said Fund."*

Based on the Bureau of Treasury Confirmation Letter and Authority to Accept Payment of the District, only the General Manager and designated Disbursing Officer were bonded. Thus, the non-application of the designated Property Officer will result

to non-restitution in case of any possible defalcation, shortage and unrelieved loss, hence, deemed reiterated.

**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.**

Management assured that they will include the designated Property Officer in the next renewal of Fidelity Bond of the District.

**Expenses not directly paid to Disbursing Officer or creditors**

- 6. Various expenses totaling to P127,425.00 were paid thru reimbursements instead of paying directly to the creditors to whom the money is due or to a disbursing officer for official disbursement, contrary to Section 93 of PD 1445, hence indicative of a poor internal control on disbursements which might result in the misuse in the utilization of funds.**

Section 93 of PD 1445 otherwise known as the State Audit Code of the Philippines states the following:

*"To whom warrants or checks payable. Warrants chargeable to revenue or trust funds of the national government or checks drawn against the treasury Checking Account for Agencies maintained with any government depository shall be made payable either directly to the creditor to whom the money is due or to a disbursing officer for official disbursement."*

Presented below are the disbursements which were paid on reimbursements basis:

DV No.	Check No.	Date	Particulars	Amount
18-02-040	629439	2/3/2018	Reimbursement of labor for the construction of ledger and cabinet.	14,000.00
18-02-046	629446	2/5/2018	Reimbursement of labor for the construction of perimeter fence at the reservoir.	23,100.00
18-02-053	629454	2/13/2018	Reimbursement of expenses for payment of labor for the construction of perimeter fence at the reservoir.	22,600.00
18-02-061	629463	2/20/2018	Reimbursement of expenses for labor for the construction of perimeter fence at the reservoir.	24,050.00

18-02-078	629483	2/28/2018	Reimbursement of expenses for labor and spare parts for the repair of BWD service vehicle.	2,400.00
18-03-085	629490	3/6/2018	Payment of labor for construction of perimeter fence at the reservoir.	32,800.00
18-04-155	629569	4/25/2018	Reimbursement of expenses for materials and labor for the repair of concrete cutter and other expenses as per attached receipts.	8,475.00
<b>Total</b>				<b>P127,425.00</b>

Viewed from the preceding table, various expenses like labor, materials and repairs were all paid through reimbursement of the General Manager which is a clear violation of Section 93 of PD 1445. The said practice is also a violation of internal control on disbursements which includes among others financial controls and control on authorization which require that there should be adequate segregation of incompatible duties. Since the General Manager is the payee of these reimbursements, he has also the full control on authorizing these expenses, thereby diminishing the check and balance on the legality of the transactions.

Had these expenses been paid directly to the creditor to whom the money is due or to a disbursing officer for official disbursement, the probable misuse on utilization of government funds could have been avoided and could strengthen the internal controls on disbursements.

**We recommended that Management pay disbursements directly to the creditor to whom the money is due or to a disbursing officer for official disbursement pursuant to Section 93 of PD 1445.**

Management commented that they will comply with the given recommendation.

#### **Electric Generators have no Permit to Operate from DENR**

- 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.**

DENR Administrative Order No. 2000 – 81 Series of 2000 is the Implementing Rules and Regulations for RA 8749. Section 1, Rule XIX, Part VI of

the foregoing AO, provides that, "All sources of air pollution subject to these Implementing Rules and Regulations must have a valid Permit to Operate issued by the Director. New or modified sources must first obtain an Authority to Construct issued by the Director."

Inquiry from Management revealed that the District, for the time-being, has one unit of generator set installed each for the pumping stations located at Brgy. Bulbulala and Pagleddegan, Balaoan, La Union. Further verification disclosed that Management did not secure the required Permit to Operate for these generator sets from the Department of Environment and Natural Resources (DENR). Thus, the generator sets were not validated in terms of its usage and emission.

Noting the advice of the OGCC to the Ilocos Norte Water District (INWD), having the same environmental compliance issue, the OGCC advised management to immediately secure a "permit to operate" as required by DENR-EMB in compliance with the provisions of RA 8749 but without paying for the license fees or penalties and other charges, should there be any, considering that local water districts are exempt from payment of all national, local and municipal taxes, fees, charges, license including permit fees and costs.

Sec. 47, PD 198, as amended provides: *"A district shall (1) be exempt from paying income taxes, and (2) shall be exempt from the payment of (a) all National Government, local government and municipal taxes and fees, including any franchise, filing, recordation, license or permit fees or taxes and any fees, charges or costs involved in any court of administrative proceeding in which it may be a party and; (b) all duties or imposts on imported machinery, equipment and materials required for its operations."*

Further, the OGCC stressed that failure of the District to secure such permit on time will not hold the latter liable for the payment of penalties considering that the District is an entity being exempt from payment of license fees.

The Permit to Operate Air Pollution Control Installation, as part of the District's environmental campaign and advocacy to protect the environment dictates that the District secure such permit to further prevent exploitation of the environment in the course of its operation. This observation remained not complied, hence, reiterated for CY 2018.

**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.**

Management commented that they need to secure Environmental Compliance Certificate (ECC) before the application of Permit to Operate and they will follow-up again to DENR for the immediate completion of the release of their permits.

## **Non-preparation of Disaster Risk Reduction Management (DRRM) Plan**

- 8. Disaster Risk Reduction Management (DRRM) Plan of the District was not prepared in compliance with Section 35 of the General Provisions of the General Appropriations Act (GAA) of FY 2018, which aims to establish responsiveness of the agency in times of disaster or calamities, thus, the District may not be able to respond in times of calamities relative to their operation.**

Section 35 of the General Provisions of the GAA for FY 2018 provides that:

*“Sec. 35. Disaster Risk Reduction and Climate Change Adaption and Mitigation Measures Incorporated in All Agency Projects. All agencies of the government should implement projects incorporating risk reduction, climate change adaption, and where feasible, climate change mitigation. Xxx.*

*Agencies shall likewise integrate energy-saving solutions and consider climate resilience in the planning and implementation of all infrastructure projects, office programs, and activities, as well as assess their organizational carbon footprint and pursue appropriate emission reduction measures, to mitigate and adapt to the effects of climate change pursuant to the provisions of R.A. 9729.”*

Evaluation of records revealed that the Management had not yet prepared and developed plans, programs and projects designed to address calamities/disasters, or to lessen the adverse effects of climate change. The plan shall aim to develop, adopt and implement appropriate adaption measures in times of disasters/calamities.

Water is an indispensable need for human survival. To support the government efforts in strengthening the country's DRRM System, Water Districts must develop their own DRRM Plans and submit the same to their oversight body, Local Water Utilities Administration for approval. The plan shall help to ensure that appropriate courses of actions and measures are being undertaken in order for the District to continuous supply safe water to concessionaires even in case of disaster/calamities.

**We recommended that Management develop DRRM Plan and submit the same to LWUA for approval to ensure responsiveness of the agency in times of calamities/disaster especially in ensuring the uninterrupted supply of safe quality of water to concessionaires even during calamities/disasters.**

Management commented that they have disaster response procedures but not yet formalized and documented, hence, they agreed to consolidate all procedures and incorporate it as DRRM Plan.

## B. NON-COMPLIANCE WITH TAX LAWS

Absence of Sworn Declarations as bases for non-remittance of tax on BOD's per diem

9. The Income Payee's Sworn Declaration of Gross Receipts/Sales and Income Payor/Withholding Agent's Sworn Declaration were not duly submitted to the Bureau of Internal Revenue (BIR), contrary to Revenue Regulations (RR) No. 11-2018 dated January 31, 2018, hence, casts doubt on the non-remittance of taxes on per diems amounting to P63,360.00 paid to the Board of Directors (BODs).

Pertinent provisions of Revenue Regulations (RR) No. 11-2018 dated January 31, 2018, amending certain provisions of RR No. 2-98, provides the following:

*"SECTION 2.57.2. Income Payments Subject to Creditable Withholding Tax and Rates Prescribed Thereon. – Except as herein otherwise provided, there shall be withheld a creditable income tax at the rates herein specified for each class of payee from the following items of income payments to persons residing in the Philippines:*

*(A) Professional fees, talent fees, etc. for services rendered – On the gross professional, promotional, and talent fees or any other form of remuneration for the services rendered by the following:*

*Individual payee:*

*If gross income for the current year did not exceed P3M - Five percent (5%);*

*If gross income is more than P3M - Ten percent (10%)*

*(9) Fees of directors who are not employees of the company paying such fees, whose duties are confined to attendance at and participation in the meetings of the board of directors"*

Based on the above provisions, the District's BODs are therefore subject to a creditable withholding tax from 5% to 10% depending on their gross income.

Further, Section 3 of RR No. 11-2018 amending Section 2.57.3 of RR No. 2-98, provides that:

*"XXXXXXX, an individual seller-income earner/payee, may not be subjected to withholding under Section 2.57.2 hereof if the source of income comes from a lone income payor and the total income payment is less than P250,000 in a taxable year. In this case, the concerned individual shall execute an Income Payee's Sworn Declaration of Gross Receipts/Sales that shall be submitted to the lone payor. XXXXXX. The income payor/withholding agent shall in turn execute its*

*own Income Payor/Withholding Agent's Sworn Declaration stating the number of payees who shall not be subjected to withholding taxes and have duly submitted their income payees' sworn declarations and copies of COR. Together with the income payor/withholding agent's sworn declaration is the list of payees, who shall not be subjected to withholding tax, which shall be submitted by the income payor/withholding agent to the concerned BIR office on or before the last day of January of each year or on the fifteenth (15th) day of the following month when a new income recipient submitted the payee's sworn declaration to the lone income payor/withholding agent. Xxxxxxx..."*

*The duly received income payor/withholding agent's sworn declaration including the required list shall serve as proof that the income payments made are not subject to withholding tax." (Emphasis ours)*

Presented below is the summary of per diems received by the Board of Directors for CY 2018:

<b>Name of the Board of Director</b>	<b>Position</b>	<b>Per Diem Received by the Board</b>
Hermogenes Madrid Ancheta	Board of Director - Chairman	P36,960.00
Joel Olaires Obar	Board of Director - Vice Chairman	29,040.00
Benjamin Paculan Onido	Board of Director - Secretary	31,680.00
Felicitima Negrillo Ordonio	Board of Director - Treasurer	31,680.00
Afra Lopez Monis	Board of Director - Member	31,680.00
<b>Total</b>		<b>P63,360.00</b>

Verification of disbursement vouchers revealed that the District did not withhold and remit taxes on per diems received by the BODs and no sworn declarations from payee and payor were attached. Inquiry from Management also revealed that all BOD members' gross receipts from all sources are below P250,000.00 and some of them are already retired and no work or business at all.

Viewed from the foregoing, while it is true that the income received by a BOD member (Income earner) is not subject to a withholding tax if his/her gross receipts from the District and the total income payment is less than P250,000.00, the director is still required to submit to the District (Income Payor/Withholding Agent) his/her Income Payee's Sworn Declaration of Gross Receipts/Sales under RR No. 11-18.

Likewise, the District should also prepare its Income Payor/Withholding Agent's Sworn Declaration to be submitted to the concerned BIR office on or before the last day of January of each year or on the fifteenth (15th) day of the following

month. The submission of the aforementioned sworn declarations are the legal documents to support the appropriate taxable status of the directors.

**We recommended that Management require the BODs to submit their Income Payee's Sworn Declaration of Gross Receipts/Sales. Similarly, the District shall in turn execute its own Income Payor/Withholding Agent's Sworn Declaration stating the number of payees who shall not be subjected to withholding taxes and have it duly submitted to the concerned BIR office pursuant to RR No. 11-2018 dated January 31, 2018.**

**We also recommended that Management, in the event of non-submission of the above-mentioned sworn declarations, withhold from the director's per diem an amount at equivalent tax rate for remittance to the BIR.**

Management committed to require all members of the Board of Directors to submit their Sworn Declarations, likewise, they will also prepare their corresponding Sworn Declarations for submission to the Bureau of Internal Revenue District Office No. 3 at City of San Fernando, La Union.

### **C. GENDER AND DEVELOPMENT ACTIVITY**

#### **Deficiencies relative to Gender and Development Activity**

- 10. 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.**

Gender and Development (GAD) mainstreaming is the main strategy for ensuring that the government pursues gender equality in all aspects of the development process to achieve the vision of a gender-responsive society where women and men equally contribute to and benefit from development.

One important mechanism for gender mainstreaming is the annual gender and development (GAD) planning and budgeting process. The GAD plan seeks to address identified women and gender issues through specific activities and the GAD budget is the amount required to implement the GAD plan, which is the agency's overall annual work plan and budget.

In the audit of GAD plan and budget, the following deficiencies were noted:

- a. 2018 GAD Plan and Budget (GPB) and 2017 GAD Accomplishment Report (GAD AR) were not submitted to Philippine Commission on Women (PCW) for review and approval.**



Section 7 of Joint Circular No. 2012-01 of PCW, NEDA and DBM states that:

*"PCW reviews all submitted GPBs vis-à-vis GAD ARs and transmits its comments and recommendations to line departments or central offices. Comments and recommendations from PCW shall be communicated to the agencies for the needed adjustments within the six-week period.*

*"PCW approves and endorses all revised GPBs and returns them to the concerned offices xxx"*

The non-submission of 2018 GPB casts doubt on the legality and gender relatedness of the activities reflected in the GPB since it was not reviewed and approved by the PCW.

**b. 2018 GAD Budget is below the five percent of the 2018 Corporate Budget.**

Section 6.1 of Joint Circular No. 2012-01 of PCW, NEDA and DBM provides that:

*"At least five percent (5%) of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency's maintenance and other operating expenses (MOOE), capital outlay (CO) and personal services (PS)."*

Verification of the 2018 Corporate Budget disclosed that the District budgeted P6,658,593.00 for personal services, P7,450,045.00 for maintenance and other operating expenses, P2,595,000 for capital outlay or a total of P16,703,638.00.

The 5% of the total budget is P299,777.75, which must be budgeted for 2018 GAD activities. However, only P590,000.00 was budgeted in the 2018 GPB which is only 3.53% of the total budget. Consequently, the GPB is under-budgeted by P245,181.90. Consequently, the GPB is under-budgeted by P216,277.75.

**c. Under-utilization of GAD Budget**

Verification of the District's GAD Accomplishment Report (AR) disclosed that the District spent only P271,189.75 out of P590,000.00 budgeted as per GPB amount, thus, under-utilized by P318,810.25.

GAD AR shows that the District utilized their GAD Budget for the celebration of Women's Month, Team Building, Family Day and Physical Fitness Program. However, the Audit Team noted that various activities were not implemented such as GAD trainings and seminars, medical and dental check-up,

mother's and father's day celebration, feeding program, adoption of community projects, sports program and conservation of water awareness program.

**d. Non-establishment and maintenance of GAD Database**

Section 4.4 of Joint Circular No. 2012-01 of PCW, NEDA and DBM states that:

*"The agency shall develop or integrate in its existing database GAD information to include gender statistics and sex-disaggregated data that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming and policy formulation."*

The District did not establish and maintain a GAD Database which includes sex disaggregated data such as demographic characteristics, marriage, fertility and family conditions, education and training, labor force, social welfare, medical and health, living arrangement and other similar indicators.

**Viewed from the deficiencies noted, we recommended that Management:**

- a. Prepare and submit GAD Plan and Budget and GAD Accomplishment Report to Philippine Commission on Women for review and endorsement to establish the GAD relatedness of the activities for implementation;**
- b. Prepare a GAD Budget in accordance with Section 6.1 of Joint Circular No. 2012-01 of PCW, NEDA and DBM;**
- c. Implement GAD activities pursuant to the approved GAD Plan and Budget; and**
- d. Establish and maintain GAD Database which includes sex disaggregated data based on various GAD indicators.**

Management commented that they will comply with the given recommendations.

**C. STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES FOR CY 2018**

Presented in next page is the summary of receipts and settlements of audit suspensions, disallowances and charges for CY 2018:

Particulars	Beginning Balance (January 1, 2018)	This Period January 1, 2018 to December 31, 2018		Ending Balance (December 31, 2018)
		NS/ND/NC	NSSDC	
Notice of Suspension	P1,257,943.84	25,000.00	58,982.00	1,223,961.84
Notice of Disallowance	10,000.00	7,500.00	7,500.00	10,000.00
Notice of Charge	0.00	0.00	0.00	0.00
<b>Total</b>	<b>P1,267,943.84</b>	<b>P32,500.00</b>	<b>P66,482.00</b>	<b>P1,233,961.84</b>

Suspensions and disallowance amounting to P25,000.00 and P7,500.00, respectively, were issued for CY 2018. Meanwhile, a settlement of P58,982.00 and P7,500.00 were issued for suspensions and disallowance, respectively, leaving an unsettled balance of P1,257,943.84 and P10,000.00 of suspensions and disallowances, respectively, for CY 2018.

**PART III**

**STATUS OF PRIOR YEAR'S AUDIT  
RECOMMENDATIONS**

### PART III - STATUS OF PRIOR YEAR'S AUDIT RECOMMENDATION

Hereunder is the status of implementation of recommendations relative to the audit of the accounts and transactions for CY 2017:

Audit Observations and Recommendations	Referen-ces	Management Action	Status of Implemen-tation (FI, PI, NI)	Reason for Partial or Non-Implementation
<p>1. Reconciliation and comparative analysis of the Accounts Receivable account with a net realizable value of P700,377.41 as of December 31, 2017 could not be made due to the absence of the ageing schedule, pursuant to Section 58 of P.D. 1445 otherwise known as the State Audit Code of the Philippines. Also, doubtful accounts or impairment for the CY 2017 Accounts Receivable was not provided due to the absence of the said schedule, contrary to Section 58 of IAS No. 39 and Section 66 of Volume 1 of New Government Accounting System (NGAS), hence the net realizable value of the Accounts Receivable was understated. Consequently, these deficiencies rendered its accuracy and valuation doubtful.</p> <p>We recommended that Management prepare an Ageing Schedule annually using the individual</p>	2017 AAR	Management already submitted the Ageing Schedule of Accounts Receivable and found no material discrepancy.	FI	

Audit Observations and Recommendations	References	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
Customer Ledger Card as basis. The ages must be based on the ages mentioned in Section 66 of Volume 1 of New Government Accounting System (NGAS). We have also recommended to provide bad debts expense/impairment losses annually using the percentages mentioned in the NGAS.				
<p>2. Various deficiencies were noted on the procurement and implementation of the District's drilling project with a contract cost of P1,462,320.00 at Pagledeggan Pumping Station which was procured through Negotiated Procurement due to two failed bidding, contrary to various provisions of Revised Implementing Rules and Regulations (IRR) of R.A. 9184 and other pertinent rules and regulations, thus casting doubt on the legality of the procurement as well as to its compliance to technical specifications.</p> <p>We recommended Management the following courses of action:</p> <p>a. Coordinate with the</p>	2017 AAR	Management already submitted the documents subject to review by the Regional Technical Evaluation Services of Commission on Audit Regional Office No. 1.	FI	

Audit Observations and Recommendations	References	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
<p>BAC of LWUA in order to submit all lacking documents as required in various provisions of Revised IRR of R.A. 9184, COA Circular 2012-001 and those required in the technical report;</p> <p>b. Submit the legal basis why the Bids and Awards Committee of Local Water Utilities Administration conducted the procurement despite the availability of the District's BAC; and</p> <p>c. All documents of procurement be submitted immediately to the Audit Team to avoid the issuances of suspensions/disallowances:</p>				
<p>3. Various lapses were noted in the procurement and disbursements of payment of the civil works for the rehabilitation and expansion project of the District at Brgy. Pagleddegan, Balaoan, La Union amounting to P11,783,723.00, contrary to various provisions of 2016 Revised Implementing Rules and Regulations (IRR) of R.A. 9184, thus, rendering the procurement process and payment doubtful and put the project at detrimental</p>	<p>2017 AAR</p>	<p>Management already submitted the documents subject to review by the Regional Technical Evaluation Services of Commission on Audit Regional Office No. 1.</p>	<p>FI</p>	

Audit Observations and Recommendations	References	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
<p>status.</p> <p>We recommended to the Management the following courses of action:</p> <ul style="list-style-type: none"> <li>a. Invitation to at least three observers must be observed in all stages of procurement pursuant to Section 13.1 of 2016 Revised IRR of RA 9184;</li> <li>b. Estimates of financial bid must be in detail as to unit prices of construction materials, labor rates and equipment rentals as mandated by Section 10.2 of the Procurement Law;</li> <li>c. Notice of Award must be approved by the General Manager being the Head of the Procuring Entity of the District;</li> <li>d. Full payment must be only made after the project completion;</li> <li>e. Submit the Statement of Works Accomplish to verify the accuracy of payments made; and</li> <li>f. Require the Contractor to post another performance security until July 1, 2018, otherwise, the Head of the Agency shall be directly responsible for</li> </ul>				



Audit Observations and Recommendations	References	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
any future defects or damages discovered.				
<p>4. The District's invitation for submission of quotation for the procurement of office supplies with an approved budget for the contract (ABC) amounting to P64,150.00 was not posted in the Philippine Government Electronic Procurement System (PhilGEPS) website contrary to Section 54.2(4) of the 2016 Revised Implementing Rules and Regulations (IRR) of R.A. 9184, thus affecting the legality and transparency of the procurement.</p> <p>We recommended Management to observe strictly the rules on posting of invitations to the PhilGEPS website as mandated by Section 54 of the 2016 Revised Implementing Rules and Regulations (IRR) of R.A. 9184, to avoid disallowances of transactions.</p>	2017 AAR	Management already complied.	FI	
5. Office supplies and connection materials totaling P47,486.00 which are regular items in nature were paid and replenished against the petty cash fund (PCF) of the District,	2017 AAR	Management already complied.	FI	

Audit Observations and Recommendations	References	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
<p>contrary to Section 4.3.2 of COA Circular 97-002 dated February 10, 1997. These regular expenses should have been procured through the Procurement Service (PS) of the Department of Budget and Management (DBM) and alternative modes of procurement as mandated by R.A. 9184. Also, it violated Section 4.114 Revenue Regulation No. 2-98 dated April 17, 1998, as this is tantamount to evasion of proper imposition of taxes to the sellers/suppliers.</p> <p>We recommended that Management conduct procurement for the purchase of regular expenses in accordance with Sections 48.1, 52.1.b and 53.9 of 2016 Revised Implementing Rules and Regulations (IRR) of RA 9184. Office supplies needed should be purchased through the Procurement Service (PS) –DBM. Shopping may be resorted if items are not available at the Procurement Service (PS) –DBM, and/or Small-Value Procurement for other supplies. Also, payment must be made through check payable</p>				

Audit Observations and Recommendations	References	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
directly to the winning supplier and corresponding taxes must be withheld and remitted pursuant to Section 4.114 Revenue Regulation No. 2-98.				
<p>6. Payment by the District for the annual National Water and Resources Board's (NWRB) water permit amounting to P10,033.00 is unauthorized which is in violation of Sections 28 and 45 of Presidential Decree (PD) No. 198 and other existing laws and rules, thus disallowed in audit.</p> <p>We recommended Management to stop the payment of annual water charges assessed by the National Water and Resources Board as it is deemed unauthorized pursuant to Sections 28 and 45 of Presidential Decree (PD) No. 198.</p>	2017 AAR	Management already complied.	FI	