



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

**ANNUAL AUDIT REPORT**

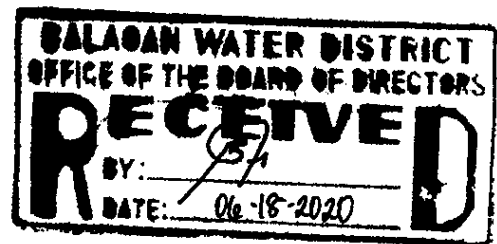
on the

**BALAOAN WATER DISTRICT**  
Balaoan, La Union

**For the Year Ended December 31, 2019**



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, 2020

**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, 2019, 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 26, 2020. 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, 2019, 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 2019:

1. Construction of One Storey Administrative Building implemented by Administration:



- a. Lacked the necessary conditions and documents for review and evaluation as required under Rule II, Section 7 of the 2016 Revised Implementing Rules and Regulations of the Republic Act No. 9184 and Annex A of GPPB Resolution No. 018-2006, thus, the propriety of its implementation cannot be fully ascertained.
- b. Procurement of various materials related to the construction of the Administrative Building totaling to P1,596,360.96 were divided into several Purchase Requests and Purchase Orders issued for the same or at about the same time thus, manifesting splitting of requisitions and contracts contrary to the provisions of Section 54.1 of the 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184 and COA Circular No. 76-41 dated July 30, 1976.

We recommended that Management:

- 1) Submit a copy of the approved Annual Procurement Plan and documents or justifications to show track record or compliance with the conditions to undertake projects by Administration;
  - 2) Submit written justifications on why the District did not conduct public bidding of the project/construction of materials;
  - 3) Employ proper planning and scheduling in the procurement of goods which are similar in nature and needed for the same or at about the same time so that requisitions thereof would not result to piece-meal basis; and
  - 4) Ensure strict observance of the provisions of Rule II, Section 7 of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184, Section 54.1, same RIRR, in the procurement of goods and COA Circular No. 76-41 dated July 30, 1976, with a view of attaining efficiency, economy and effectiveness in its operations.
2. 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, 2019, 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.

3. Several permanent structures owned by the District with a total book value of P857,404.71 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. A Water Safety Plan which aims to develop and implement a plan for drinking-water quality management required under LWUA Memo and DOH was not prepared, thus the District may not be able to maintain and address issues concerning water quality.

We recommended that Management seek assistance from other water districts and fast track the formulation of a Water Safety Plan based on DOH guidelines and submit the same to LWUA for approval that will serve as a guideline in ensuring maintenance of the drinking-water quality from generation to distribution.

5. Due to the absence of flow meters from the main water sources of the District, the reliability and accuracy of the reported Non-Revenue Water (NRW) rate of 12% for CY 2019 is doubtful, thus, compliance with LWUA Resolution No. 444 series 2009 on tolerable NRW of 20% could not be assured.

We recommended that management allocate funds for the procurement and installation of flow meters at source to generate accurate water production report and to determine the actual Non-Revenue Water rate.

6. 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 a GAD Budget in accordance with Section 6.1 of Joint Circular No. 2012-01 of PCW, NEDA and DBM;
- b. Implement GAD activities pursuant to the approved GAD Plan and Budget; and
- c. 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 99 of the General Provisions of Republic Act No. 11260, otherwise known as the General Appropriations Act of 2019, 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,

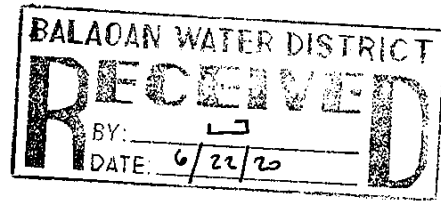
A handwritten signature in black ink, appearing to read 'MB', is written over the printed name.

**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, 2020

**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, 2019, 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 26, 2020. 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, 2019, 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 2019:

1. Construction of One Storey Administrative Building implemented by Administration:

- a. Lacked the necessary conditions and documents for review and evaluation as required under Rule II, Section 7 of the 2016 Revised Implementing Rules and Regulations of the Republic Act No. 9184 and Annex A of GPPB Resolution No. 018-2006, thus, the propriety of its implementation cannot be fully ascertained.
- b. Procurement of various materials related to the construction of the Administrative Building totaling to P1,596,360.96 were divided into several Purchase Requests and Purchase Orders issued for the same or at about the same time thus, manifesting splitting of requisitions and contracts contrary to the provisions of Section 54.1 of the 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184 and COA Circular No. 76-41 dated July 30, 1976.

We recommended that Management:

- 1) Submit a copy of the approved Annual Procurement Plan and documents or justifications to show track record or compliance with the conditions to undertake projects by Administration;
  - 2) Submit written justifications on why the District did not conduct public bidding of the project/construction of materials;
  - 3) Employ proper planning and scheduling in the procurement of goods which are similar in nature and needed for the same or at about the same time so that requisitions thereof would not result to piece-meal basis; and
  - 4) Ensure strict observance of the provisions of Rule II, Section 7 of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184, Section 54.1, same RIRR, in the procurement of goods and COA Circular No. 76-41 dated July 30, 1976, with a view of attaining efficiency, economy and effectiveness in its operations.
2. 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, 2019, 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.

3. Several permanent structures owned by the District with a total book value of P857,404.71 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. A Water Safety Plan which aims to develop and implement a plan for drinking-water quality management required under LWUA Memo and DOH was not prepared, thus the District may not be able to maintain and address issues concerning water quality.

We recommended that Management seek assistance from other water districts and fast track the formulation of a Water Safety Plan based on DOH guidelines and submit the same to LWUA for approval that will serve as a guideline in ensuring maintenance of the drinking-water quality from generation to distribution.

5. Due to the absence of flow meters from the main water sources of the District, the reliability and accuracy of the reported Non-Revenue Water (NRW) rate of 12% for CY 2019 is doubtful, thus, compliance with LWUA Resolution No. 444 series 2009 on tolerable NRW of 20% could not be assured.

We recommended that management allocate funds for the procurement and installation of flow meters at source to generate accurate water production report and to determine the actual Non-Revenue Water rate.

6. 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 a GAD Budget in accordance with Section 6.1 of Joint Circular No. 2012-01 of PCW, NEDA and DBM;
- b. Implement GAD activities pursuant to the approved GAD Plan and Budget; and
- c. 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 99 of the General Provisions of Republic Act No. 11260, otherwise known as the General Appropriations Act of 2019, 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,

A handwritten signature in black ink, appearing to read 'MB', is written over the printed name.

**MICHAEL R. BACANI**  
Regional Director



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, 2019**

## 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:

	2019	2018	Percentage of Change
Total Assets	36,098,159.65	P35,800,958.66	0.83%
Total Liabilities	34,776,593.63	35,931,506.35	(3.21%)
Total Equity	1,321,566.02	(130,547.69)	(103.93%)
Total Income	13,938,134.68	12,987,761.95	7.32%
Total Expenses	14,786,885.31	P16,458,198.63	(10.15%)

	2018	2017	Percentage of Change
Budget	21,429,594.00	P16,703,638.00	28.29%
Actual Expenditures	14,786,885.31	P16,795,993.17	(11.96%)

### C. Operational Highlights

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

<b>Key Result Area</b>	<b>2019</b>	<b>2018</b>	<b>Percentage of Change</b>
Billing (Water Sales)	P13,079,549.34	P12,250,554.03	6.77%
Collection (Water Sales)	13,320,981.92	12,219,044.02	9.02%
Water Production	441,145 cu. m.	417,373 cu. m.	5.70%
Number of New Connections	197	237	(16.88%)

#### **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, 2019. 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, 2019, 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 2019 GAD Plan and Budget (GPB) and 2019 GAD Accomplishment Report (GAD AR) were submitted to the Local Water Utilities Administration for preliminary review as required under PCW Memorandum Circular No. 2015-03.

We commended the District for submitting its 2019 GAD Plan and Budget (GPB) and 2019 GAD Accomplishment Report to the Local Water Utilities Administration.

However, presented on next page are the significant Audit Observations and Recommendations which affect 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. Construction of One Storey Administrative Building implemented by Administration:
  - 1.1) Lacked the necessary conditions and documents for review and evaluation as required under Rule II, Section 7 of the 2016 Revised Implementing Rules and Regulations of the Republic Act No. 9184 and Annex A of GPPB Resolution No. 018-2006, thus, the propriety of its implementation cannot be fully ascertained.
  - 1.2) Procurement of various materials related to the construction of the Administrative Building totaling to P1,596,360.96 were divided into several

Purchase Requests and Purchase Orders issued for the same or at about the same time thus, manifesting splitting of requisitions and contracts contrary to the provisions of Section 54.1 of the 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184 and COA Circular No. 76-41 dated July 30, 1976.

We recommended that Management:

- a.) Submit a copy of the approved Annual Procurement Plan and documents or justifications to show track record or compliance with the conditions to undertake projects by Administration;
  - b.) Submit written justifications on why the District did not conduct public bidding of the project/construction of materials;
  - c.) Employ proper planning and scheduling in the procurement of goods which are similar in nature and needed for the same or at about the same time so that requisitions thereof would not result to piece-meal basis; and
  - d.) Ensure strict observance of the provisions of Rule II, Section 7 of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184, Section 54.1, same RIRR, in the procurement of goods and COA Circular No. 76-41 dated July 30, 1976, with a view of attaining efficiency, economy and effectiveness in its operations.
2. 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, 2019, 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.

3. Several permanent structures owned by the District with a total book value of P857,404.71 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. A Water Safety Plan which aims to develop and implement a plan for drinking-water quality management required under LWUA Memo and DOH was not prepared, thus the District may not be able to maintain and address issues concerning water quality.

We recommended that Management seek assistance from other water districts and fast track the formulation of a Water Safety Plan based on DOH guidelines and submit the same to LWUA for approval that will serve as a guideline in ensuring maintenance of the drinking-water quality from generation to distribution.

5. Due to the absence of flow meters from the main water sources of the District, the reliability and accuracy of the reported Non-Revenue Water (NRW) rate of 12% for CY 2019 is doubtful, thus, compliance with LWUA Resolution No. 444 series 2009 on tolerable NRW of 20% could not be assured.

We recommended that management allocate funds for the procurement and installation of flow meters at source to generate accurate water production report and to determine the actual Non-Revenue Water rate.

6. 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 a GAD Budget in accordance with Section 6.1 of Joint Circular No. 2012-01 of PCW, NEDA and DBM;
- b. Implement GAD activities pursuant to the approved GAD Plan and Budget; and
- c. 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 2019, the District has P1,223,961.84 suspensions and no disallowances and charges.

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

Out of the 10 prior years' audit recommendations, one was fully implemented, three were partially implemented and six were not implemented, which are reiterated in Part III of the report.



## **TABLE OF CONTENTS**

### **PART I - AUDITED FINANCIAL STATEMENTS**

Independent Auditor's Report	1
Statement of Management Responsibility	3
Detailed Statement of Financial Position	4
Detailed Statement of Comprehensive Income	8
Statement of Changes in Equity	11
Statement of Cash Flow	12
Notes to the Financial Statements	13

### **PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS**

26

### **PART III - STATUS OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

41

**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

---

**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, 2019, 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, 2019, 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 misstatements, 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, 2020



**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, 2019, 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 misstatement 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 27, 2020

Date Signed

**ALORNA L. CASTILLO**

Cashier B/Acting Accounting Processor

January 27, 2020

Date Signed

**ENGR. VICTOR R. OBILLO**

General Manager

January 27, 2020

Date Signed

**BALAOAN WATER DISTRICT**  
Balaoan , La Union  
**Detailed Statement of Financial Position**  
Period Ended December 31, 2019  
(with comparative figures for CY 2018)

<u>ASSETS</u>	Notes	2019	2018
<b>Current Assets</b>			
<b>Cash and Cash Equivalent</b>			
Cash on hand			
Cash-Collecting Officer	2	45,973.05	18,793.22
Pretty Cash Fund			
Cash in Bank	3		
Cash in Bank,Local Currency-CA		330,221.16	2,154,971.25
Cash in Bank,Local Currrency-SA		1,052,659.01	1,031,807.13
Total		<u>1,428,853.22</u>	<u>3,205,571.60</u>
<b>Receivables</b>			
Loans and Receivables			
Accounts Receivable	4	716,523.14	795,132.40
Allowance for Impairment-AR		(151,709.86)	(139,980.01)
Inter-Agency Receivables			
Due from Government Corporation	5	64,089.45	64,089.45
Advances			
Advance to Officers and Employees			
Other Receivables			
Receivable Disallowances/Charges	6	162,249.60	162,249.60
Due from Officers and Employees	7	42,586.66	54,586.66
Other Receivables	8	54,098.50	95,081.20
Total		<u>887,837.49</u>	<u>1,031,159.30</u>
<b>Inventories</b>	9		
Inventory Held for Sale			
Merchandise Inventory			190,483.65
Inventory Held for Consumption			
Accountable Forms,Plates & Stickers Inventory		89,820.18	68,741.18
Inventory Held for Distribution			
Construction Material Inventory			93,563.27
Chemical & Filtering Material Inventory		301,215.70	30,089.65
Total		<u>391,035.88</u>	<u>382,877.75</u>



<b>Other Assets</b>		
Prepayments		
Prepaid Rent	4,150.00	10,000.00
Other Prepayments	30,430.85	23,805.11
Total	<u>34,580.85</u>	<u>33,805.11</u>
<b>Total Current Assets</b>	2,742,307.44	4,653,413.76
<b>Non-Current Assets</b>		
<b>Property, Plant and Equipment</b>		
	10	
Land	159,500.00	159,500.00
Land		
Building and Other Structures		
Other Structures	1,313,264.90	
Accu. Dep-Water Supply Systems	(126,474.35)	
Infrastructure Assets		
Water Supply Systems	46,585,433.08	47,571,150.84
Accu. Dep-Water Supply Systems	(17,278,892.43)	(17,358,710.57)
Machinery and Equipment		
Office Equipment	49,130.50	49,130.50
Accu. Dep-Office Equipment	(39,111.88)	(37,202.32)
Information & Comm. Tech. Equip.	385,513.00	385,513.00
Accu. Dep-Information & Comm. Tech. Equip.	(276,734.34)	(229,514.02)
Other Machineries and Equipment	387,443.60	383,543.60
Accu. Dep-Other Machineries and Equipment	(208,698.84)	(172,288.62)
Communication Equipment	6,600.00	6,600.00
Accu. Dep-Communications Equipment	(6,237.00)	(5,544.00)
Furnitures, Fixtures & Books		
Furniture and Fixture	218,800.42	218,800.42
Accu. Dep-Furniture and Fixture	(163,140.91)	(138,172.39)
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	(427,500.00)	(319,200.00)
Total	<u>31,153,957.63</u>	<u>31,088,668.32</u>
Construction-in-Progress		
Construction in Progress -Infrastructure	2,143,018.00	
Total	<u>33,296,975.63</u>	<u>31,088,668.32</u>
<b>Other Assets</b>		
Other Assets		
Other Assets	11	
	<u>58,876.58</u>	<u>58,876.58</u>
<b>Total Non-Current Assets</b>	<u>33,355,852.21</u>	<u>31,147,544.90</u>
<b>Total Assets</b>	<u><u>₱ 36,098,159.65</u></u>	<u><u>₱ 35,800,958.66</u></u>

## **LIABILITIES AND EQUITY**

### **Current Liabilities**

#### **Financial Liabilities**

##### **Payables**

Due to officers and employees	12	175,900.00	79,200.00
Interest Payable			
Total		<u>175,900.00</u>	<u>79,200.00</u>

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

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

Due to BIR	13	108,125.89	83,325.34
Due to GSIS	14	81,382.29	73,108.89
Due to Pag-ibig	15	20,136.19	13,229.03
Due to Philhealth	16	3,540.27	3,157.07
Due to NGAs	17	104,457.93	184,457.93
Due to Government Corporations	18	15,605.45	15,605.45
Total		<u>333,248.02</u>	<u>372,883.71</u>

#### **Trust Liabilities**

##### **Trust Liabilities**

Trust Liabilities	19	1,061,366.69	936,278.58
Guaranty/Security Deposits Payable	20	93,622.84	93,622.84
Total		<u>1,154,989.53</u>	<u>1,029,901.42</u>

#### **Other Payables**

##### **Other Payables**

Other Payable	21	241,849.28	123,057.46
---------------	----	------------	------------

#### **Total Current Liabilities**

		<u>1,905,986.83</u>	<u>1,605,042.59</u>
--	--	---------------------	---------------------

### **Non-Current Liabilities**

#### **Financial Liabilities**

##### **Loans Payable**

Loans Payable- Domestic	22	30,568,523.35	31,699,380.35
Other Deffered Credits		2,302,083.45	2,627,083.41
Total Liabilities		<u>34,776,593.63</u>	<u>35,931,506.35</u>

#### **Equity**

##### **Government Equity**

##### **Government Equity**

Government Equity	23	157,905.75	157,905.75
-------------------	----	------------	------------

<b>Retained Earnings</b>		
Retained Earnings	1,163,660.27	(288,453.44)
Retained Earnings	<u>1,321,566.02</u>	<u>(130,547.69)</u>
<b>Total Equity</b>		
	<u><b>P 36,098,159.65</b></u>	<u><b>P 35,800,958.66</b></u>
<b>Total Liabilities and Equity</b>		

See Accompanying Notes to Financial Statements

**BALAOAN WATER DISTRICT**  
Balaoan, La Union  
**Detailed Statement of Comprehensive Income**  
Period Ended December 31, 2019  
(with comparative figures for CY 2018)

	Notes	2019	2018
<b>Revenue:</b>			
Business Income			
Waterworks Systems Fees	24 P	12,778,887.55 P	11,927,390.23
Other Business Income	25	500,569.85	434,399.01
Fines and penalties-Business Income		331,092.10	297,869.85
Interest Income		2,585.22	3,102.90
Inc. fr. Grants and Donations In Cash		324,999.96	324,999.96
<b>Total</b>	<b>P</b>	<b><u>13,938,134.68</u></b>	<b><u>P 12,987,761.95</u></b>
<b>Less: Expense</b>			
<b>Personal Services</b>			
Salaries and Wages			
Salaries and Wages-Regular	P	3,589,422.00 P	3,031,809.10
Labor and Wages		30,360.00	144,187.50
Other Compensations			
Personnel Economic Relief Allowance		330,000.00	284,000.00
Representation Allowance		60,000.00	60,000.00
Transportation Allowance		60,000.00	60,000.00
Clothing/Uniform Allowance		84,000.00	72,000.00
Honoraria		190,024.00	192,852.00
Overtime and Night Pay		129,705.22	154,972.66
Cash Gift		70,000.00	60,000.00
Other Bonuses and Allowance			570,312.00
Personnel Benefit Contributions			
Retirement and Life Insurance Prem.		426,399.66	335,169.39
Pag-ibig Contributions		16,400.00	14,000.00
Philhealth Contributions		41,542.74	35,137.47
Employees Comp. Insurance Prem.		16,400.00	14,100.00
Other Personnel Benefits			
Other Personnel Benefits		876,601.80	243,693.38
<b>Total Personal Services</b>	<b>P</b>	<b><u>5,920,855.42</u></b>	<b><u>P 5,272,233.50</u></b>
<b>Maintenance and Other Operating Expenses</b>			
Traveling Expenses			
Traveling Expense-Local	P	101,410.23 P	156,271.00
Training Expense		20,100.00	29,400.00
Supplies And Materials Expenses			
Office Supplies Expense		83,816.17	88,723.46

Accountable Form Expense	129,321.00	104,452.50
Fuel, Oil And Lubricants Expenses	370,739.06	363,339.50
Chemical & Filtering Supplies Expenses	135,270.40	204,638.50
Utilities Expense		
Electricity Expense	1,972,729.27	2,175,529.00
Postage and Courier Services	2,227.00	1,825.00
Telephone Expenses	25,009.88	28,229.27
Professional Services		
Legal Services	400.00	3,090.00
Auditing Services	15,037.00	209,485.98
Other Professional Services	18,000.00	8,000.00
Repair and Maintenance		
Repairs and Main-Machinery and Equipment	15,414.00	19,035.00
Repairs and Main-Furniture and Fixtures		
Repairs and Main-Semi-Expendable Ma&E	6,820.00	2,900.00
Repairs and Main-Transportation Equipmt	127,525.00	49,781.00
Repairs and Main-Infrastructure Assets	356,802.35	421,638.20
Donations		
Extraordinary and Miscellaneous Expenses	400,143.00	479,422.75
Taxes, Duties and Licenses	315,450.26	286,609.84
Fidelity Bond Premium	3,000.00	3,000.00
Insurance Expenses	2,121.27	1,672.94
Other Maintenance and Operating Expenses		
Member. Dues & Contribution to Organization		10,800.00
Advertising, Promotional&Marketing Expenses	10,000.00	40,460.00
Printing and Publication Expenses	2,860.00	2,388.00
Rent/Lease Expenses	86,784.00	86,784.60
Representation Expense	80,386.68	68,902.87
Subscription Expense		
<b>Total Maint. And Other Operating Expenses</b>	<b>P 4,281,366.57</b>	<b>P 4,846,379.41</b>
<b>Financial Expenses</b>		
Financial Expenses		
Bank Charges	P 1,200.00	P 3,130.00
Interest Expenses	1,963,728.00	1,280,990.00
<b>Total Financial Expense</b>	<b>P 1,964,928.00</b>	<b>P 1,284,120.00</b>
<b>Non-Cash Expenses</b>		
Depreciation		
Depreciation - Buildings and Other Structure	P 62,380.20	P 23,691.95
Depreciation - Office Equipment	1,909.56	
Depreciation - IT Equipment	47,220.32	
Depreciation - Communication Equipment	693.00	
Depreciation - Machinery and Equipment	36,410.22	76,784.64
Depreciation - Furniture, Fixture and Books	108,300.00	24,271.45
Depreciation - Transportation Equipment	24,968.52	108,300.00
Depreciation - Other PPE	2,326,123.65	4,792,002.68
<b>Impairment Loss - Loans and Receivables</b>		
Impairment Loss-loans & Receivables	11,729.85	30,415.00
<b>Total Non-Cash Expenses</b>	<b>P 2,619,735.32</b>	<b>P 5,055,465.72</b>

<b>Total Expenses</b>	<b>P</b>	<b><u>14,786,885.31</u></b>	<b>P</b>	<b><u>16,458,198.63</u></b>
<b>Net Income</b>	<b>P</b>	<b><u><u>(848,750.63)</u></u></b>	<b>P</b>	<b><u><u>(3,470,436.68)</u></u></b>

See Accompanying Notes to Financial Statements



**BALAOAN WATER DISTRICT**  
 Balaoan, La Union  
**Statement of Changes in Equity**  
 Period Ended December 31, 2019  
 (with comparative figures for CY 2018)

	2019	2018
<b>Government Equity</b>		
Balance at Beginning of Period	P 157,905.75	P 157,905.75
Reclassification of Capital Accounts		
Additions/Deductions		
<b>Balance at End of the Period</b>	<b>P <u>157,905.75</u></b>	<b>P <u>157,905.75</u></b>
<b>Retained Earnings</b>		
Beginning Balance	P (288,453.44)	P 3,164,483.24
Add: Income and Expense Summary	(848,751.23)	(3,470,436.68)
Prior Period Adjustments		17,500.00
<b>Ending Balance:</b>	<b>P <u>(1,137,204.67)</u></b>	<b>P <u>(288,453.44)</u></b>
<b>TOTAL EQUITY</b>	<b>P <u><u>(979,298.92)</u></u></b>	<b>P <u><u>(130,547.69)</u></u></b>

**BALAOAN WATER DISTRICT**  
Balaoan, La Union  
**Cash Flow statement**  
Period Ended December 31, 2019  
(with comparative figures for CY 2018)

	<b>2019</b>	<b>2018</b>
<b>Cash Inflows</b>		
Collection of Income from water sales	P 13,137,503.18	P 12,218,444.02
Collection of Income from penalty charges	52,200.27	297,869.85
Collection of Income from Misc. Service Revenues	1,259,045.26	901,283.49
Interest from various bank deposits	2,585.22	3,102.90
Others	124,532.11	208,004.67
<b>TOTAL Cash Outflow</b>	<b>P 14,575,866.04</b>	<b>P 13,628,704.93</b>
<b>Cash Outflows</b>		
Payment of operating expenses	P (4,485,371.90)	P (4,266,312.22)
Payment of Payables	(6,779,741.56)	(7,252,488.63)
<b>TOTAL Cash Outflow</b>	<b>P (11,265,113.46)</b>	<b>P (11,518,800.85)</b>
<b>Net Cash from (used in) operating activities</b>	<b>P 3,310,752.58</b>	<b>P 2,109,904.08</b>
<b>Cash Flow from Investing Activities</b>		
<b>Cash Inflows</b>		
<b>Cash Outflows</b>		
Construction of Other Structure	P (1,992,885.96)	P (245,814.04)
Purchase of Equipments		(91,980.50)
<b>Net cash from (used in) investing activities</b>	<b>P (1,992,885.96)</b>	<b>P (337,794.54)</b>
<b>Cash Flow From Financing Activities</b>		
<b>Cash Inflows</b>		
<b>Cash Outflows</b>		
Payment of Loan	P (3,094,585.00)	P (2,158,411.00)
<b>Net cash from (used in) financing activities</b>	<b>P (3,094,585.00)</b>	<b>P (2,158,411.00)</b>
<b>Net increase in Cash and Cash Equivalents</b>	<b>P (1,776,718.38)</b>	<b>P (386,301.46)</b>
Add: Cash and Equivalent, Beginning	3,205,571.60	3,591,873.06
<b>Cash &amp; Cash Equivalents, Ending</b>	<b>P 1,428,853.22</b>	<b>P 3,205,571.60</b>

**BALAOAN WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**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 2,099 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, 2019 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

**ACCOUNTING POLICIES AND EXPLANATIONS NOTES**

**Note 1 - Significant Accounting Policies**

**1.1 Basis of Financial Statements Presentation**

The financial statements of the District have been prepared using historical cost basis. The financial statements are 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, 2019, the District prepared its financial statements (FS) in accordance with generally accepted accounting principle in the Philippines and Philippine Financial Reporting Standards (PFRS).

**1.2 Statement of Compliance**

The financial statements 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 and Revised Chart of Accounts (RCA) for Government Corporations prescribed in COA Circular Nos. 2015-010 and 2016-006 dated December 1, 2015 and December 29, 2016, respectively.

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

The significant accounting policies that have been used in the preparation of the District's financial statements 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 Financial Instruments**

##### *Date of recognition*

The District recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

##### *Initial recognition of financial instruments*

Financial instruments are initially recognized at fair value, which is the fair value of the consideration given (in case of a financial asset)

or received (in case of a financial liability). Except for securities at Fair Value through Profit or Loss (FVPL), the initial measurement of financial instruments includes transaction costs.

#### *Financial Assets at amortized cost*

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2019, this category includes cash and cash equivalents and receivables.

#### *Financial Liabilities at Amortized Cost*

Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the District having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired or through the amortization process.



As at December 31, 2019, the District classifies its long-term debt, accounts and other payables except statutory liabilities under this category.

### **1.3.3 Derecognition of Financial Assets and Financial Liabilities**

#### *Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is **derecognized** when:

- the right to receive cash flows from the asset has expired;
- the District retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the District has transferred its right to receive cash flows from the asset and either
  - (a) has transferred substantially all the risks and rewards of the asset,
  - or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

#### *Financial liabilities*

A financial liability is **derecognized** when the obligation under the liability is discharged, cancelled, or has expired.

Where an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

### **1.3.4 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.

### **1.3.5 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.

### **1.3.6 Prepaid expenses**

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

### **1.3.7 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; and
- the cost is at least ₱15,000.00.

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 and amortization 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 and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization 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 2019.

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 amortization 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 Impairment of Non-financial Assets**

The District assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the District estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU's) fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators.

Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

### **1.5 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.

#### **1.5.1 Water Work System Fees**

This represents income derived from billed water sales.

#### **1.5.2 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.

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

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

#### **1.5.4 Interest Income**

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

### **Note 2 – Cash-Collecting Officer**

It represents undeposited collections on December 31, 2019 which were deposited on January 2, 2020. Deposit of collections is done twice a day by the District, one in the morning for yesterday afternoon's 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:

<b>Account</b>	<b>2019</b>	<b>2018</b>
Local Currency, CA-LBP EFPS	P 144,215.54	P 106,610.45
Local Currency, CA-RB	96,511.87	332,056.89
Local Currency, CA-LBP KFW		
Local Currency, CA-LBP GF	89,493.75	1,716,303.91
Local Currency, SA_LBP Reserve	230,699.12	215,513.52
Local Currency, SA-LBP Customer Dep	821,959.89	816,293.61
<b>TOTAL</b>	<b>P1,382,880.17</b>	<b>P3,186,778.38</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>2019</b>	<b>2018</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>2019</b>	<b>2018</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>2019</b>	<b>2018</b>
GM Victor Obillo/Marlinda Obille	42,586.66	54,586.66
<b>Total</b>	<b>P42,586.66</b>	<b>P54,586.66</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.

<b>Payee</b>	<b>2019</b>	<b>2018</b>
BOD	P79,200.00	P79,200.00
BWD Employees	70,000.00	
Marlinda Obille	79,200.00	
<b>TOTAL</b>	<b>P175,900.00</b>	<b>P79,200.00</b>

#### **Note 13 – 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

#### **Notes 14 – Due to GSIS**

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

#### **Note 15– Due Pag-ibig**

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

**Note 16 – Due to Philhealth**

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

**Note 17 – Due to NGA's**

This represents 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 – 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.

**Note 20 – Bail Bond Payable / Guaranty/Security Deposits 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**

#### **Various Lapses on the Application of the Revised Implementing Rules and Regulations (IRR) of Republic Act 9184 or the Philippine Procurement Law**

##### **1. Construction of One Storey Administrative Building implemented by Administration:**

- a. Lacked the necessary conditions and documents for review and evaluation as required under Rule II, Section 7 of the 2016 Revised Implementing Rules and Regulations of the Republic Act No. 9184 and Annex A of GPPB Resolution No. 018-2006, thus, the propriety of its implementation cannot be fully ascertained.**

Rule II, Section 7.1 and 7.2 of the 2016 Revised Implementing Rules and Regulations of the Republic Act No. 9184 (RIRR) sets forth the initial steps of the procurement process wherein the end users are required to prepare their respective Project Procurement Management Plan (PPMP) for consolidation into the proposed Annual Procurement Plan (APP) of the District.

Likewise, Annex A of GPPB Resolution No. 018-2006 dated December 6, 2006 enumerates, among others, the conditions and documentary requirements for the use of “By Administration” to all infrastructure projects as follows:

- 3.1 Projects undertaken by Administration shall be included in the approved Annual Procurement Plan (APP) of the procuring entity concerned. If the original mode of procurement recommended in the APP was Public Bidding but cannot be ultimately pursued, or the project to be undertaken by administration has not been previously included, the BAC, through a resolution shall justify and recommend the change in the mode of procurement or the updating of the APP to be approved by the Head of the Procuring Entity.*
- 3.2 To undertake projects by administration, the implementing agency must:*
  - a. have a track record of having completed, or supervised a project, by administration or by contract, similar to and with a cost of at least fifty percent (50%) of the project at hand, and*
  - b. own the tools and construction equipment to be used or have access to such tools and equipment owned by other government agencies.*

The Annual Procurement Plan (APP) serves as a vital tool to the District in the management and planning of their procurement needs. However, to date, a copy of the approved APP was not yet submitted to the office of the auditor. The non-preparation of the APP implies that the procurement of infrastructure projects, goods and services were not meticulously and judiciously planned.

On the other hand, it was observed that supporting documents or written justifications to show track record or compliance with the conditions to undertake projects by administration were also not submitted, hence, the propriety of its implementation cannot be fully ascertained.

To facilitate the review and evaluation process, particularly on the legal aspects, it has become imperative to submit the requirements pursuant to above-mentioned regulation.

- b. Procurement of various materials related to the construction of the Administrative Building totaling to P1, 596,360.96 were divided into several Purchase Requests and Purchase Orders issued for the same or at about the same time thus, manifesting splitting of requisitions and contracts contrary to the provisions of Section 54.1 of the 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184 and COA Circular No. 76-41 dated July 30, 1976.**

Section 54.1 of the 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184 provides that, *"splitting of Government Contracts is not allowed. Splitting of Government Contracts means the division or breaking up of GOP contracts into smaller quantities and amounts, or dividing contract implementation into artificial phases or sub-contracts for the purpose of evading or circumventing the requirements of law and this IRR, particularly the necessity of competitive bidding and the requirements for the alternative methods of procurement."*

*For Infrastructure Projects to be implemented by phases, the Procuring Entity shall ensure that there is a clear delineation of work for each phase, which must be usable and structurally sound. It shall also ensure the conduct of the detailed engineering activities for each phase as provided for in Annex "A" of this IRR."*

Also, COA Circular No. 76-41 dated July 30, 1976 clearly states the forms of splitting, to wit:

- "a) Splitting of Requisitions consists in the non-consolidation of requisitions for one or more items needed at or about the same time by the requisitioner.*
- b) Splitting of Purchase Orders consists in the issuance of two or more purchase orders based on two or more requisitions for the same or at about the same time by different requisitioners.*
- c) Splitting of Payments consists in making two or more payments for one or more items involving one purchase order.*

The concept of splitting of government (procurement) contracts as defined above pre-supposes singularity of a procurement project but which, by any act of the procuring entity or its personnel, was divided or broken into smaller quantities and/or amount, or was divided into artificial implementation phases or stages.

Audit of disbursement vouchers and its supporting documents as of October 30, 2019, disclosed that materials used in the construction of the Administrative Building were all procured from one supplier totaling P1,596,360.96, as presented below:

No.	Date	Check No.	Payee	Amount (P)
1	08/07/2019	1498710	RP Lumber and Construction Supply	397,518.93
2	09/23/2019	1498711	RP Lumber and Construction Supply	398,796.61
3	11/05/2019	1498712	RP Lumber and Construction Supply	467,641.72
4	12/05/2019	1498713	RP Lumber and Construction Supply	332,403.70
<b>TOTAL</b>				<b>P1,596,360.96</b>

It is to be emphasized that the total budget for the cost of construction materials amounts to P1,785,019.00, hence, the procurement of materials for the months of August to December 2019 could have been consolidated into one requisition/order and public bidding should have been conducted instead of resorting to ~~small value procurement~~. Consequently, the failure to conduct public bidding defeated government policy of competitiveness, transparency, economy and efficiency in the procurement process.

The construction of the Administrative Building, by its nature, is one project and therefore, must have been captured in a single Procurement Project Management Plan so that to implement by phases and divide the construction materials needed at or about the same time into smaller quantities, would be unreasonable. In this case, the project was constructed through multiple procurement without clear advantage for the government and to circumvent existing rules and provisions of law.

**We recommended that Management:**

- 1) Submit a copy of the approved Annual Procurement Plan and documents or justifications to show track record or compliance with the conditions to undertake projects by Administration;**
- 2) Submit written justifications on why the District did not conduct public bidding of the project/construction of materials;**
- 3) Employ proper planning and scheduling in the procurement of goods which are similar in nature and needed for the same or at about the same time so that requisitions thereof would not result to piece-meal basis; and**

- 4) **Ensure strict observance of the provisions of Rule II, Section 7 of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184, Section 54.1, same RIRR, in the procurement of goods and COA Circular No. 76-41 dated July 30, 1976, with a view of attaining efficiency, economy and effectiveness in its operations.**

Management commented that it had to look for another office space to lease in compliance with the road widening notice from the DPWH. However, due to the absence of a commercial space for lease in the area, the only solution they thought of was to construct its own Administrative Building by phases relative to the availability of its cash and budget requirements, thus, resorted to procurement by Administration. Management further commented that the several procurements of materials needed have been posted to PhilGEPS. In addition the need for the construction of the building is an emergency in nature due to expansion of its operations, thus, needed prompt action.

#### **Auditor's Rejoinder:**

The Audit Team is consistent with its stand that the District's move to implement the construction of its Administrative Building through phase or availability of cash lacks legal basis. The Revised IRR of RA 9184 did not mention any provision to implement construction or infrastructure projects through phase based on the availability of cash or budget. While it is true that the District sought ways to augment its funds, prudent judgment dictates that the District could have even saved its funds had it resorted to a single procurement of materials through public bidding.

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

2. **Various expenses totaling to P50, 701.39 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 may result to misuse in the utilization of funds.**

Section 93 of P.D. No. 1445 otherwise known as the State Audit Code of the Philippines states that:

*"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 reimbursement basis:

DV No.	Check No.	Date	Payee	Particulars	Amount (P)
19-02-047	675567	2/19/2019	General Manager	Reimbursement of expenses for labor and spare parts for the repair of BWD service vehicle and for supplies	8,661.00
19-02-059	675580	2/22/2019	Water Resource Facilities Tender A	Reimbursement of insurance and registration of BWD service vehicle donated by Baguio Water District	2,977.39
19-05-140	675667	5/9/2019	General Manager	Reimbursement of expenses for payment of fire code fees for the construction of BWD administrative building	2,563.00
19-05-145	675672	5/20/2019	General Manager	Reimbursement of expenses for the cleaning of 1 unit split type aircon for the office	2,500.00
19-06-168	698300	6/11/2019	General Manager	Reimbursement of expenses for labor and spare parts for the repair of BWD vehicles	9,500.00
19-07-191	698327	7/10/2019	General Manager	Reimbursement of expenses for the purchase of additional spare parts for the repair of BWD service vehicle	5,000.00
19-08-249	698392	8/28/2019	General Manager	Payment of labor for the construction of BWD admin building	19,500.00

**Total**

**50,701.39**

Viewed from the preceding table, various expenses like labor, materials, repair and insurance were all paid through reimbursement to the General Manager and to the Water Resource Facilities Tender A, a non-disbursing officer, which is contrary to Section 93 of PD 1445.

The said practice is also a clear violation of sound internal control on disbursements, which requires among others, control in authorization which requires adequate segregation of incompatible duties. Since the General Manager is the payee of these disbursements, he has also the full control on authorizing these expenses, thereby diminishing the check and balance on the legality of the transactions.

Further, post audit revealed that payment of insurance and registration of the District's service vehicle were also paid through reimbursement basis to the Water Resource Facilities Tender A. These regular expenses should have been paid directly to the Government Service Insurance System and Land Transportation Office, respectively.

Had these expenses been paid directly to the creditors to whom the money is due or to a disbursing officer for official disbursement, the probable misuse on the 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.

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

- 3. 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, 12/31/19	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 properties. Henceforth, the existence and accuracy of these properties 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 water meters can no longer be traced. However, subsequent follow ups were made whenever missing water meters were reported by concessionaires.



**Properties with a book value of P857, 404.71 were not insured**

4. Several permanent structures owned by the District with a total book value of P857, 404.71 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”, Xxx”*

*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 76,374.42	P 73,625.58
Steel Reservoir	350,000.00	54,629.39	295,370.61
Pump Station No. 3 - Baracbac Oeste	214,010.00	31,031.50	182,978.50
Pump Station No. 4 (pumphouse)	344,470.00	39,039.98	305,430.02
Total	<b>P1,058,480.00</b>	<b>P201,075.29</b>	<b>P857,404.71</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.

**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 especially Pumping Station No. 4 located at Brgy. Pagleddegan which was already applied to GSIS.

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

- 5. Unserviceable properties with a book value of P23,374.80 as of December 31, 2018 were 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 were located in various pumping stations and stockroom and have become eyesores. Detailed list of unserviceable properties are shown below:

<b>Description</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Carrying Amount</b>	<b>Status</b>
<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 exposure to the elements and 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 bonded**

- 6. The designated property officer remained 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 fidelity bond 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. Management further commented to have a permanent Property Officer and the same shall be applied for its Fidelity Bond.

#### **Non-preparation of Water Safety Plan**

- 7. A Water Safety Plan which aims to develop and implement a plan for drinking-water quality management required under LWUA Memo and DOH was not prepared, thus the District may not be able to maintain and address issues concerning water quality.**

Local Water Utilities Administration (LWUA) Memorandum No. 010-14 dated December 1, 2014 provides that:

*"The development and implementation of WSP shall become part of the institutional requirements that LWUA will be requiring from WD and will form part of the components in evaluating WD performance"*

Department of Health Administrative Order No. 2007-0012 dated March 9, 2007 states the following:

*"Three key-components of Water Safety Plans:*

- System assessment – to determine whether the drinking water supply chain as a whole can deliver water of quality that meets health-based targets. This also includes the assessment of design criteria or new systems*

- *Operational monitoring – to identifying control measures in a drinking-water system that will collectively control identified risks and ensure that the health-based targets are met; to rapidly detect any deviation from required performance*
- *Management plans – to describe actions to be taken during normal operations or incident conditions”*

A Water Safety Plan (WSP) is a document that contains a comprehensive risk assessment and risk management approach encompassing all steps in water supply from water source to consumer to consistently ensure the safety of drinking water. The objectives of WSPs are to prevent or minimize contamination of water source, remove contamination thru treatment, and prevent re-contamination during storage, distribution and handling of drinking-water.

Evaluation of records revealed that the Management had not yet prepared and developed plans, programs and projects designed to address issues on drinking-water quality. Absence of a DOH approved Water Safety Plan affects the District's assurance of delivery of safe drinking-water. Also, hazards and or hazardous risks that may threaten the safe quality of drinking-water and public health may not be immediately addressed and appropriately dealt with.

**We recommended that Management seek assistance from other water districts and fast track the formulation of a Water Safety Plan based on DOH guidelines and submit the same to LWUA for approval that will serve as a guideline in ensuring maintenance of the drinking-water quality from generation to distribution.**

Management commented that they will comply with the given recommendation.

### **Unreliable Rate of Reported Non-Revenue Water**

- 8. Due to the absence of flow meters from the main water sources of the District, the reliability and accuracy of the reported Non-Revenue Water (NRW) rate of 12% for CY 2019 is doubtful, thus, compliance with LWUA Resolution No. 444 series 2009 on tolerable NRW of 20% could not be assured.**

In order to improve the efficiency level of water district (WDs), the Local Water Utilities Administration (LWUA), under Resolution No. 444 dated September 15, 2009, approved the reduction of maximum acceptable non-revenue water from existing 25 percent to 20 percent applicable to all water districts, effective upon its approval.

Likewise, LWUA Memorandum Circular No. 014-10 dated December 2, 2010 provides that:

*“There is a need for Water Districts to reduce the Non-Revenue Water (NRW) in order to enhance its operational efficiency and improve its financial viability. All Water Districts are therefore enjoined to periodically conduct performance audit of water meters being used by customers to ensure its accuracy. Depending on the condition of operation, the water meters should be tested for its accuracy after five (5) years of utilization.”*  
(Emphasis Ours)

On the other hand, Local Water Utilities Administration (LWUA) Memorandum Circular 011-18 dated June 1, 2018 sets the Key Performance Indicators to Monitor Water District Performance which includes the monitoring of Non-Revenue Water (NRW) which must be equal or less than twenty percent (20%).

Non-Revenue Water (NRW) is water that has been produced and “lost” before it reaches the customer. Losses can either be real losses which occurs from overflowing of water source and/or leakages in the pipes, or apparent losses which is caused by metering inaccuracies. NRW is expressed as the difference between the volume of water entering the distribution system and the volume of water billed to the customers.

Review of monthly water production and billing reports showed that for CY 2019, the District’s total water production reached 441,145 cubic meters, out of which, 389,957 cubic meters or 88% were billed to the concessionaires, hence registering an Unaccounted-for-Water or NRW of 51,188 cubic meters or 12% of the total water production.

Inspection and interview with management revealed that the District has defective or no existing flow meters from the main water sources; thus, water production is computed by collecting water from the source noting the amount of water collected within a certain period. The result will be the basis for computing for the monthly water production of the District.

It is worth noting that this method of computing the water production output is considered an estimate and cannot reasonably provide an accurate and reliable data of actual water produced.

Accordingly, while the average NRW of the District of 12% for the year 2019 was within the maximum allowable rate of 20%, the computation of NRW cannot be relied upon since the reported volume of water production is only based on estimate. The NRW rate of the District could be higher than the reported rate of 12% because the volume of water that overflows and leakages from all parts of the water system were not included in the computation. Therefore, due to the absence of flow meters, the reliability and accuracy of the reported NRW rate of 12% for CY 2019 could not be ascertained.

**We recommended that management allocate funds for the procurement and installation of flow meters at source to generate accurate water production report and to determine the actual Non-Revenue Water rate.**

Management assured that they will allocate funds for the procurement and installation of flow meters to comply with the given recommendations.

## **B. GENDER AND DEVELOPMENT ACTIVITY**

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

- 9. 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. 2019 GAD Plan and Budget (GPB) and 2018 GAD Accomplishment Report (GAD AR) were submitted to the Local Water Utilities Administration for preliminary review as required under PCW Memorandum Circular No. 2015-03.**

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”*

**We commended the District for submitting its 2019 GAD Plan and Budget (GPB) and 2018 GAD Accomplishment Report to the Local Water Utilities Administration.**

**b. 2019 GAD Budget is below the five percent of the 2019 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 2019 Corporate Budget disclosed that the District budgeted P7,021,103.00 for personal services, P 11,433,491.00 for maintenance and other operating expenses, P2,975,000.00 for capital outlay or a total of P21,429,594.00.

The 5% of the total budget is P1,071,479.70, which must be budgeted for 2019 GAD activities. However, only P820,000.00 was budgeted in the 2019 GPB which is only 3.83% of the total budget. Consequently, the GPB is under-budgeted by P251,479.70. Consequently, the GPB is under-budgeted by P213,869.68.

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

Verification of the District’s GAD Accomplishment Report (AR) disclosed that the District spent only P213,869.68 out of P820,000.00 budgeted as per GPB amount, thus, under-utilized by P606,130.32.

GAD AR shows that the District utilized their GAD Budget for the celebration of Women’s Month, Team Building, Mother’s and Father’s Day Celebration, Family Day and Year-end Conference 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 a GAD Budget in accordance with Section 6.1 of Joint Circular No. 2012-01 of PCW, NEDA and DBM;
- b. Implement GAD activities pursuant to the approved GAD Plan and Budget; and
- c. 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 2019

Presented in next page is the summary of receipts and settlements of audit suspensions, disallowances and charges for CY 2019:

Particulars	Beginning Balance (January 1, 2019)	This Period January 1, 2019 to December 31, 2019		Ending Balance (December 31, 2019)
		NS/ND/NC	NSSDC	
Notice of Suspension	1,223,961.84	0.00	1,223,961.84	0.00
Notice of Disallowance	10,000.00	0.00	10,000.00	0.00
Notice of Charge	0.00	0.00	0.00	0.00
<b>Total</b>	<b>P1,233,961.84</b>	<b>0.00</b>	<b>P1,233,961.84</b>	<b>0.00</b>

Settlement of P1,223,961.84 and P10,000.00 were issued for suspensions and disallowance, respectively. The District has no outstanding suspensions and disallowances for CY 2019.

## **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 2018:

Audit Observations and Recommendations	References	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
<p>1. 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.</p> <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 P159,000.00. 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>	2018 AAR	Management is currently applying for the Transfer Certificate of Title at a one lot at a time basis due to financial constraints.	Partially Implemented	The application of titles of the District's lots situated in Brgys. Pagleddegan and Baracbac is on process.
2. Various expenses totaling to P127,425.00 were paid thru reimbursements instead of paying directly to the	2018 AAR	Management commented that they will comply with the given recommendation	Not Implemented	Management signified to comply with COA's recommendation.

Audit Observations and Recommendations	References	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
<p>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.</p> <p>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.</p>				<p>However, management still continued the practice and payment of labor was still done through reimbursements.</p>
<p>3. 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>	2018 AAR	<p>Management committed to secure permit to operate air pollution installation</p>	Partially Implemented	<p>Management is currently accomplishing the requirements pertinent to securing permit to operate like application for Environmental Compliance Certificate.</p>

Audit Observations and Recommendations	References	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
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>4. 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.</p> <p>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.</p>	2018 AAR	Management will formulate its DRRM Plan.	Partially Implemented	The District's DRRM Plan was already submitted to the Local Water Utilities Administration for follow up.

Audit Observations and Recommendations	References	Management Action	Status of Implementation (FI, PI, NI)	Reason for Partial or Non-Implementation
<p>5. 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).</p> <p>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.</p>	2018 AAR	Management have already complied. The BODs have already submitted their individual Income Payee's Sworn Declaration of Gross Sales/Receipts	Fully Implemented	