



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. 1
City of San Fernando, La Union

May 19, 2021

HERMOGENES M. ANCHETA
Chairman of the Board of Directors
Balaoan Water District
Balaoan, La Union

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

Dear Director Ancheta and General Manager Obillo:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 (2) of Presidential Decree No. 1445, otherwise known as the "Government Auditing Code of the Philippines," and in line with this Commission's efforts towards informing Management on how fiscal responsibility had been discharged, we are pleased to transmit the report of our auditors on the audit of the accounts and operations of the Balaoan Water District, Balaoan, La Union, for the year ended December 31, 2020.

The audit was conducted to ascertain the propriety of financial transactions and compliance of the agency to prescribed laws, rules and regulations. 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.

An unmodified opinion was rendered on the fairness of the presentation of the financial statements.

We request that the observations and recommendations contained in the report be appropriately acted upon and we will appreciate being informed of the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation (AAPSI), form attached, within 60 days upon receipt hereof.

We acknowledge the cooperation and support extended to our auditors during the audit.

For the Commission on Audit:

By:


ATTY. CHITO C. JANABAN
Regional Director

Copy furnished:

The President of the Republic of the Philippines
Malacañang Palace Compound
J.P. Laurel St., San Miguel, Manila

The Vice-President of the Republic of the Philippines
Quezon City Reception House
100 11th Street, Brgy. Mariana
New Manila, Quezon City

The Senate President
Senate of the Philippines
GSIS Building, Financial Center
Roxas Blvd., Pasay City

The Chairperson-Senate Finance Committee
Senate of the Philippines
GSIS Building, Financial Center
Roxas Blvd., Pasay City

The Speaker of the House
House of Representatives
Constitutional Hills, Quezon City

The Chairperson - Committee on Appropriation
Committee Office
House of Representatives of the Philippines
Basement, North Wing Building
Constitutional Hills, Quezon City

The Secretary of the Department of Budget and Management
General Solano Street, San Miguel, Manila

The Administrator
Local Water Utilities Administration
MWSS-LWUA Complex, Katipunan Avenue
Balara, Quezon City

The Director
The National Library of the Philippines
T.M. Kalaw, Ermita, Manila

The Chief Office
UP Law Center
Bacobo Hall, UP Law Complex
UP Diliman, Quezon City

The Director
COA Commission Central Library
Commission on Audit
Commonwealth Avenue, Quezon City



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, 2020

EXECUTIVE SUMMARY

A. Introduction

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

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

The District is composed of a Board of Directors (BOD) with 5 members, a General Manager (GM), assisted by 13 permanent employees.

B. Financial Highlights

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

Particulars	Amount (P)		Percentage of Change
	2020	2019	
Total Assets	36,701,629.02	36,098,159.65	16.72
Total Liabilities	35,394,257.35	34,776,593.63	17.76
Total Equity	1,307,371.67	1,321,566.02	(1.07)
Total Income	14,707,522.71	13,938,134.68	5.52
Total Expenses	14,524,641.65	14,786,885.31	(1.77)

Particulars	Amount (P)		Percentage of Change
	2020	2019	
Budget	22,049,150.00	21,429,594.00	2.89
Actual Expenditures	14,524,641.65	14,786,885.31	(1.77)

C. Operational Highlights

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

Key Result Area	Amount (P)		Percentage of Change
	2020	2019	
Billing (Water Sales)	13,870,870.85	13,079,549.34	6.05
Collection (Water Sales)	13,561,613.88	13,320,981.92	1.81
Water Production (cu. m.)	468,673	441,145	6.24
Number of New Connections	211	197	7.11

D. Scope of Audit

A comprehensive audit was conducted on the accounts and operations of BWD, Balaoan, La Union for the year ended December 31, 2020. The audit was conducted to ascertain the propriety of financial transactions and the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements in accordance with the Philippine Financial Reporting Standards (PFRS). It was also aimed at determining the compliance by the District with applicable laws, rules and regulations, and determine the extent of implementation of prior years' audit recommendations.

E. Auditor's Opinion on the Financial Statements

The Auditor rendered an unmodified opinion on the fairness of presentation of the Financial Statements (FS) of BWD, Balaoan, La Union as at December 31, 2020, and the results of its operations and cash flows for the year then ended in conformity with PFRS.

F. Summary of Significant Observations and Recommendations

Presented below is the summary of other significant observations and recommendations for Calendar Year (CY) 2020. 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. Trust Liabilities accounts totaling ₱1,276,530.53 that remained dormant for more than 2 to 10 years could not be ascertained, due to the absence of necessary supporting documents, contrary to Conceptual Framework for Financial Reporting and Section 4(6) of PD No. 1445, thus affecting the reliability, validity, and accuracy of the accounts in the financial statements.

We recommended that Management instruct the Accounting Officer to:

- a. Review, analyze and validate the dormant customers' deposits account for possible offsetting against outstanding receivables of inactive concessionaires;
- b. Exert extra effort to secure the supporting documents to facilitate the review and validation of the long outstanding performance security/guaranty payable; and

- c. If warranted, revert to Retained Earnings all payable accounts which remained dormant for more than two years, especially those accounts without supporting documents and valid claimants pursuant to Section 98 of PD No. 1445.
2. Loans Payable - Domestic account totaling P31,422,180.85 could not be ascertained, due to the absence of necessary supporting documents contrary to Sections 4(6) and 111 of PD No. 1445, thus affecting the reliability, validity, and accuracy of the account in the financial statements.

We recommended that Management instruct the Accounting Officer to submit the necessary supporting documents such as copy of the contract of loans including financial and accounting reports, showing the age of the account and payment schedule of loan principal and interest.

3. Assets and Liability accounts are presented in the Statement of Financial Position (SFP) without any distinction between Current and Non-Current Accounts and were not properly disclosed in the Notes to Financial Statements, contrary to Paragraphs 15 and 60 of the Philippine Accounting Standards (PAS) 1, thereby affecting the fair presentation of the financial statements of the District.

We recommended that Management instruct the Accountant to present current and non-current assets, and current to non-current liabilities as separate classifications on the face of its SFP in compliance with the PAS 1.

4. 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 11% for CY 2019 is not accurate, thus compliance with LWUA Resolution No. 444 series 2009 on tolerable NRW of 20% could not be assured.

We recommended that Management direct the GM to allocate funds for the procurement and installation of flow meters at source to generate an accurate water production report and to determine the actual NRW rate.

G. Status of Implementation of Prior Years' Audit Recommendations

Of the 18 prior years' audit recommendations, 10 were implemented and 8 were not implemented, which are reiterated in Part II of the report.

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

For CY 2020, the District had no outstanding suspension, disallowance and charge.



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. I
Corporate Government Sector 7
Water Districts and Other CGS Stand Alone Agencies
City of San Fernando, La Union
Team R1-03

MEMORANDUM

FOR : **ATTY CHITO C. JANABAN**
Regional Director
Commission on Audit
Regional Office No. I

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

DATE : **May 19, 2021**

In compliance with Section 2, Article IX-D of the Philippine Constitution and Section 43 (2) of Presidential Decree No. 1445, we conducted a financial and compliance audit on the accounts and operations of Balaoan Water District, Balaoan, La Union for the year ended December 31, 2020.

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

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

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Balaoan Water District as at December 31, 2020, and the results of its operations and cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

We discussed our observations and their corresponding recommendations with the agency officials and personnel during the exit conference last May 14, 2021. We are pleased to note their favorable reactions to our recommendations.

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



MC DOBET P. QUINAGON
State Auditor IV
Audit Team Leader

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PART I

AUDITED FINANCIAL STATEMENTS



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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Balaoan Water District
Balaoan, La Union

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, 2020, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Financial Position of the Balaoan Water District as at December 31, 2020, its Comprehensive Income and its Cash Flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for 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:


ATTY. ROBERT V. OCAMPO, SR.
OIC - Supervising Auditor

April 7, 2021



BALAOAN (LU) WATER DISTRICT

Viloria St., Brgy. Antonino

Balaoan, La Union

Email address: balaoanwaterdistrict66@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 of December 31, 2020, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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

HERMOGENES M. ANCHETA

Chairman of the Board

January 27, 2021

Date Signed

ALORNA L. CASTILLO

Cashier B/Acting Accounting Processor

January 27, 2021

Date Signed

ENGR. VICTOR R. OBILLO

General Manager

January 27, 2021

Date Signed

BALAOAN WATER DISTRICT

Balaoan, La Union

Statement of Financial Position

All Funds

As at December 31, 2020

	Note	2020	2019
ASSETS			
Current Assets			
Cash and Cash Equivalent	2	1,983,534.22	1,428,853.22
Receivables	3	1,164,926.41	887,837.49
Inventories	4	398,794.61	391,035.88
Other Assets	5	17,061.54	34,580.85
Total Current Assets		3,564,316.78	2,742,307.44
Non-Current Assets			
Property, Plant and Equipment	6	33,078,435.66	33,296,975.63
Other Assets	7	58,876.58	58,876.58
Total Non-Current Assets		33,137,312.24	33,355,852.21
TOTAL ASSETS		36,701,629.02	36,098,159.65
LIABILITIES			
Current Liabilities			
Financial Liabilities	8	79,200.00	175,900.00
Inter-Agency Payables	9	578,751.75	333,248.02
Trust Liabilities	10	1,276,530.53	1,154,989.53
Other Payables	11	60,510.73	241,849.28
Total Current Liabilities		1,994,993.01	1,905,986.83
Non-Current Liabilities			
Financial Liabilities	12	31,422,180.85	30,568,523.35
Deferred Credits	13	1,977,083.49	2,302,083.45
Total Non-Current Liabilities		33,399,264.34	32,870,606.80
TOTAL LIABILITIES		3,972,076.50	4,208,070.28
EQUITY			
Government Equity	14	157,905.75	157,905.75
Retained Earnings/(Deficit)		1,149,465.92	1,163,660.27
Total Equity		1,307,371.67	1,321,566.02
TOTAL LIABILITIES AND EQUITY		5,279,448.17	5,529,636.30

See Accompanying Notes to Financial Statements

BALAOAN WATER DISTRICT
 Balaoan, La Union
Statement of Comprehensive Income
 All funds
 For the Year Ended December 31, 2020

	Note	2020	2019
INCOME			
Business Income	15	14,707,522.71	13,938,134.68
EXPENSES			
Personnel Services	16	6,217,941.45	5,920,855.42
Maintenance and Other Operating Expenses	17	3,714,278.25	4,281,366.57
Financial Expenses	18	1,897,096.00	1,964,928.00
Non-Cash Expenses	19	2,695,325.95	2,619,735.32
TOTAL EXPENSES		14,524,641.65	14,786,885.31
NET INCOME/(LOSS)		182,881.06	(848,750.63)
Other Comprehensive Income/(Loss)		-	-
COMPREHENSIVE INCOME/(LOSS)		182,881.06	(848,750.63)

See Accompanying Notes to Financial Statements

BALAOAN WATER DISTRICT
Balaoan, La Union
Statement of Changes in Equity
All Funds
For the year ended December 31, 2020

	2020	2019
Government Equity		
Balance at Beginning of Period	157,905.75	157,905.75
Reclassification of Capital Accounts		
Additions/Deductions		
Balance at End of the Period	<u>157,905.75</u>	<u>157,905.75</u>
 Retained Earnings		
Beginning Balance	1,163,660.27	-288,453.44
Add: Income and Expense Summary	182,881.06	(848,751.23)
Prior Period Adjustments	(197,075.41)	2,300,864.94
Ending Balance:	<u>1,149,465.92</u>	<u>1,163,660.27</u>
 TOTAL EQUITY	<u><u>1,307,371.67</u></u>	<u><u>1,321,566.02</u></u>

BALAOAN WATER DISTRICT
Balaoan, La Union
Statement of Cashflows
All Funds
For the year ended December 31, 2020

	2020	2019
Cash Inflows		
Collection of Income from water sales	13,561,613.78	13,137,503.18
Collection of Income from penalty charges	257,174.03	52,200.27
Collection of Income from Misc. Service Revenues	923,322.90	1,259,045.26
Interest from various bank deposits	1,606.79	2,585.22
Loan Funds	2,049,021.50	-
Others	171,852.75	124,532.11
Total Cash Inflow	<u>16,964,591.75</u>	<u>14,575,866.04</u>
Cash Outflows		
Payment of operating expenses	(4,265,559.24)	(4,485,371.90)
Payment of Payables	(6,830,614.48)	(6,779,741.56)
Total Cash Outflow	<u>(11,096,173.72)</u>	<u>(11,265,113.46)</u>
Net Cash from (used in) operating activities	<u>5,868,418.03</u>	<u>3,310,752.58</u>
Cash Flow from Investing Activities		
Cash Inflows		
Cash Outflows		
Construction of Other Structure	(2,223,527.03)	(1,992,885.96)
Net cash from (used in) investing activities	<u>(2,223,527.03)</u>	<u>(1,992,885.96)</u>
Cash Flow From Financing Activities		
Cash Inflows		
Cash Outflows		
Payment of Loan	(3,090,210.00)	(3,094,585.00)
Net cash from (used in) financing activities	<u>(3,090,210.00)</u>	<u>(3,094,585.00)</u>
Net increase in Cash and Cash Equivalents	554,681.00	(1,776,718.38)
Add: Cash and Equivalent, Beginning	1,428,853.22	3,205,571.60
Cash & Cash Equivalents, Ending	<u><u>1,983,534.22</u></u>	<u><u>1,428,853.22</u></u>

**NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2020**

A. GENERAL

a. Historical Background

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

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

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

At present, BWD falls under Category D based on the Revised Local Water District Manual on Categorized, Re-categorized and Other Related Matters (LWW-MaCRO) effective September 1, 2012. It is now serving 2,239 water and sewer concessionaires covering 26 barangays of the Municipality of Balaoan.

b. Organizational Set-Up

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

The following are the members of the Board as of December 31, 2020, with the respective sector they represent, namely:

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

B. ACCOUNTING POLICIES AND EXPLANATIONS NOTES

1. Summary of Significant Accounting Policies

1.1 Basis of Financial Statements Presentation

The FS 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, 2020, the District prepared FS in accordance with generally accepted accounting principle in the Philippines and PFRS.

1.2 Statement of Compliance

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

1.3 Summary of Significant Accounting Policies

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

1.3.1 Current versus Noncurrent Classification

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

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

All other assets are classified as noncurrent. A liability is current when it is:

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

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

The District classifies all other liabilities as noncurrent.

1.3.2 Cash and Cash Equivalents

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

1.3.3 Inventories

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

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

1.3.4 Prepaid expenses

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

1.3.5 Property, Plant and Equipment

Recognition

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

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

An item of PPE is recognized as an asset if:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity;
- the cost or fair value of the item can be measured reliably; 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 of PPE commences once the PPE are available for use and are calculated on a straight-line basis over the estimated useful lives (EUL) of the PPE.

The EUL and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of PPE. There were no changes in the estimated useful lives of PPE in 2020.

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

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

1.4 Revenue Recognition

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

1.4.1 Water Work System Fees

This represents income derived from billed water sales.

1.4.2 Other Business Income

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

1.4.3 Fines and Penalties – Business Income

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

1.4.4 Interest Income

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

2. Cash and Cash Equivalents

This account consists of the following:

Particulars	2020	2019
Cash on Hand		
Cash Collecting Officer	59,802.75	45,973.05
Cash In Bank-Local Currency		
Local Currency CA	860,386.75	330,221.16
Local Currency SA	1,063,344.72	1,052,659.01
Total Cash in Bank	1,923,731.47	1,428,853.22
Total Cash and Cash Equivalents	<u>1,983,534.22</u>	<u>1,428,853.22</u>

Cash Collecting Officer

It represents undeposited collections on December 31, 2020, which were deposited on January 4, 2021. Deposit of collections is done twice a day by the District, one in the morning

for yesterday's afternoon collections and another in the afternoon for the morning's collections.

Cash in Bank

This account is composed of the following as presented below:

Account		
	2020	2019
Local Currency, CA-LBP EFPS	134,864.77	144,215.54
Local Currency, CA-RB	239,098.93	96,511.87
Local Currency, CA-LBP KFW	204,950.64	
Local Currency, CA-LBP GF	281,472.41	89,493.75
Local Currency, SA_LBP Reserve	235,851.08	230,699.12
Local Currency, SA-LBP Customer Deposit	827,493.64	821,959.89
Total	<u>1,923,731.47</u>	<u>1,382,880.17</u>

Local Currency, CA-LBP

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

Local Currency, Rang-ay Bank

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

Local Currency, CA-LBP Reserve

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

Local Currency, CA-LBP Customers Deposit

The above consists of two months deposits of concessionaires.

Local Currency, CA - LBP Special Project

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

3. Receivables

Particulars	2020	2019
Loans and Receivables		
Accounts receivables	1,036,344.75	716,523.14
Allowance for impairment loss -AR	(182,442.55)	(151,709.86)
Inter-Agency Receivables		
Due from Government Corporation	64,089.45	64,089.45
Other Receivables		
Receivable Disallowances/Charges	162,249.60	162,249.60
Due from Officers and Employees	30,586.66	42,586.66
Other Receivables	54,098.50	54,098.50
Total Receivables	1,164,926.41	887,837.49

Accounts Receivable

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

Due from Government Corporation

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

Name of GOCC	2020	2019
Sta. Lucia Water District	6,555.55	6,555.55
Tagudin Water District	57,533.90	57,533.90
Total	64,089.45	64,089.45

Receivable Disallowances/Charges

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

Names	2020	2019
Amor Benigno	31,926.00	31,926.00
Darren Fernandez	14,542.00	14,542.00
Edgar Orallo	19,786.00	19,786.00

Names	2020	2019
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
Total	162,249.60	162,249.60

Due from Officers and Employees

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

Names	2020	2019
GM V. Obillo/Marlinda Obille	30,586.66	42,586.66
Total	30,586.66	42,586.66

Other Receivables

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

4. Inventories

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

Particulars	2020	2019
Inventory Held for Consumption		
Accountable Forms, Plates and Stickers Inventory	73,815.28	89,820.18
Inventory Held for Distribution		
Chemical and Filtering Material Inventory	324,979.33	301,215.70
Total Inventories	398,794.61	391,035.88

5. Other Assets

This account is composed of the following:

Particulars	2020	2019
Prepayments		
Prepaid Rent	4,150.00	4,150.00
Other Prepayments	12,911.54	30,430.85
Total Other Assets	398,794.61	391,035.88

6. Property, Plant and Equipment

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

Particulars	2020	2019
Land		
Land	199,500.00	159,500.00
Building and Other Structure	2,199,718.00	
Buildings		
Accumulated Depreciation – Buildings	(20,897.34)	
Other Structures	1,404,819.90	1,313,264.90
Accumulated Depreciation – Other Structures	(189,216.96)	(126,474.35)
Infrastructure Assets		
Water Supply Systems	46,663,059.87	46,585,433.08
Accumulated Depreciation – Water Supply	(19,638,202.98)	(17,278,892.43)
Machineries and Equipment		
Office Equipment	49,130.50	49,130.50
Accumulated Depreciation – Office Equipment	(41,021.44)	(39,111.88)
Information and Communication		
Technical Equipment	385,513.00	385,513.00
Accumulated Depreciation – Information and Communication Technical Equipment	(317,375.54)	(276,734.34)
Other Machineries and Equipment	387,443.60	387,443.60
Accumulated Depreciation – Other Machineries and Equipment	(242,949.12)	(208,698.84)
Communication Equipment	6,600.00	6,600.00
Accumulated Depreciation - Communication Equipment	(6,237.00)	(6,237.00)
Furniture, Fixture and Books		
Furniture and Fixtures	399,950.42	218,800.42

Particulars	2020	2019
Accumulation Depreciation Furniture and Fixtures	(199,682.63)	(163,140.91)
Transportation Equipment		
Motor Vehicles	62,300.00	62,300.00
Accumulated Depreciation - Motor Vehicles	(57,238.12)	(57,238.12)
Other Transportation Equipment	570,000.00	570,000.00
Accumulated Depreciation - Other Transportation Equipment	(535,800.00)	(427,500.00)
Total	31,079,414.16	31,153,957.63
Construction-in-Progress		
Construction in Progress – Infrastructure	1,999,021.50	2,143,018.00
Total Property, Plant and Equipment	33,078,435.66	33,296,975.63

7. Other Assets

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

Particulars	2020	2019
Other Assets	58,876.58	458,876.58
Total Other Assets	58,876.58	458,876.58

8. Financial Liabilities

This account is composed of Due to officers and employees.

Particulars	2020	2019
Due to Officers and Employees	79,200.00	175,900.00

Due to Officers and Employees

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

9. Inter-Agency Payables

This account consists of the following:

Particulars	2020	2019
Due to BIR	234,650.87	108,125.89
Due to GSIS	106,764.79	81,382.29
Due to Pag-ibig	26,010.95	20,136.19
Due to Philhealth	4,186.35	3,540.27
Due to NGAs	191,533.34	104,457.93
Due to Other Government Corporations	15,605.45	15,605.45
Total Inter-Agency Payables	578,751.75	333,248.02

Due to BIR

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

Due to GSIS

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

Due to Pag-ibig

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

Due to Philhealth

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

Due to NGAs

This represents the liability account of the District with COA on audit fees for CYs 2016 and 2017.

Due to Other Government Corporations

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

10. Trust Liabilities

This is composed of the following:

Particulars	2020	2019
Trust Liabilities	1,182,907.69	1,061,366.69
Guaranty/Security Deposits Payable	93,622.84	93,622.84
Total Trust Liabilities	1,276,530.53	1,154,989.53

Trust Liabilities

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

Guaranty/Security Deposits Payable

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

11. Other Payable

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

Particulars	2020	2019
Other Payables	60,510.73	241,849.28

12. Financial Liabilities

It consists of Loans Payable – Domestic of the District.

Loan Account No.	Particulars	Amount
3 – 590	Construction of Water District level III which includes the Drilling of 1 test/production well at Brgy. Bulbulala, Balaoan, La Union.	1,158,166.92
9 – 0357	Formerly a Non – LWUA Initiated Fund (NLIF) – PFS which is originally a grant and later was classified as ICG Soft loan at 2% per annum as per LWUA Board of Trustee's Resolution No. 001 series 2012.	4,174,799.00

Loan Account No.	Particulars	Amount
9 – 0607	Financial assistance under the Salintubig program for water supply development project consisting of 50% loan and 50% grant effective February 2016.	2,610,853.00
4 – 2689	Financial assistance for water supply improvement and expansion project under the Third German assisted - Provincial Towns Water Supply and Sanitation Program III (KFW PTWSSP III).	21,429,340.43
4 – 2966	Financial assistance for the improvement and expansion of water supply	2,049,021.50
	Total	31,422,180.85

13. Deferred Credits

This account consists of Other Deferred Credits.

Particulars	2020	2019
Deferred Credits		
Other Deferred Credits	1,977,083.49	2,302,083.45

Other Deferred Credits

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

14. Government Equity

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

Particulars	2020	2019
Government Equity		
Government Equity	157,905.75	157,905.75

15. Business Income

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

Particulars	2020	2019
Business Income		
Waterworks Systems Fees	13,645,551.85	12,778,887.55
Other Business Income	478,190.08	500,569.85
Fines and penalties - Business Income	257,174.03	331,092.10
Interest Income	1,606.79	2,585.22
Income from Grants and Donations In Cash	324,999.96	324,999.96
Total Business Income	14,707,522.71	13,938,134.68

Waterworks System Fees

This represents income from billed water sales.

Other Business and Income

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

Income from Grants and Donations in Cash

Represents the amortized portion of the Other Deferred Credits account.

16. Personnel Services

The PS includes the following expenses as enumerated:

Particulars	2020	2019
Salaries and Wages		
Salaries and Wages-Regular	3,783,348.00	3,589,422.00
Labor and Wages		30,360.00
Other Compensations		
Personnel Economic Relief Allowance	336,000.00	330,000.00

Particulars	2020	2019
Representation Allowance	60,000.00	60,000.00
Transportation Allowance	60,000.00	60,000.00
Clothing/Uniform Allowance	84,000.00	84,000.00
Honoraria	172,608.00	190,024.00
Overtime and Night Pay	65,075.39	129,705.22
Cash Gift	70,000.00	70,000.00
Personnel Benefit Contributions		
Retirement and Life Insurance Premium	452,516.16	426,399.66
Pag-ibig Contributions	16,800.00	16,400.00
Philhealth Contributions	51,087.36	41,542.74
Employees Compensation Insurance Premium	16,800.00	16,400.00
Other Personnel Benefits		
Other Personnel Benefits	1,049,706.54	876,601.80
Total Personal Services	6,217,941.45	5,920,855.42

Other Personnel Benefits

These include SRI, PEI and other bonuses and monetization of leave credits received by employees.

17. Maintenance and Other Operating Expenses

Details of the major expense are as follows:

Particulars	2020	2019
Traveling Expenses		
Traveling Expense-Local	39,760.00	101,410.23
Training Expense		20,100.00
Supplies And Materials Expenses		
Office Supplies Expense	120,282.65	83,816.17
Accountable Form Expense	144,454.90	129,321.00
Fuel, Oil And Lubricants Expenses	286,899.45	370,739.06
Chemical & Filtering Supplies Expenses	218,256.35	135,270.40
Utilities Expense		
Electricity Expense	1,643,225.76	1,972,729.27
Postage and Courier Services	2,640.00	2,227.00
Telephone Expenses	29,066.34	25,009.88

Particulars	2020	2019
Professional Services		
Legal Services	3,300.00	400.00
Auditing Services	16,450.00	15,037.00
Other Professional Services	7,000.00	18,000.00
Repair and Maintenance		
Repairs and Main-Machinery and Equipment	22,400.50	15,414.00
Repairs and Main-Semi-Expendable Machinery and Equipment	10,699.00	6,820.00
Repairs and Main-Transportation Equipment	101,000.00	127,525.00
Repairs and Main-Infrastructure Assets	295,596.44	356,802.35
Extraordinary and Miscellaneous Expenses	307,176.00	400,143.00
Taxes, Duties and Licenses	316,065.55	315,450.26
Fidelity Bond Premium	3,000.00	3,000.00
Insurance Expenses	2,431.71	2,121.27
Other Maintenance and Operating Expenses		
Member. Dues & Contribution to Organization	2,953.00	-
Advertising, Promotional and Marketing Expenses	86,666.00	10,000.00
Printing and Publication Expenses	2,135.00	2,860.00
Rent/Lease Expenses	44,035.00	86,784.00
Representation Expense	8,784.60	80,386.68
Total Maintenance And Other Operating Expenses	3,714,278.25	4,281,366.57

18. Financial Expenses

This account is composed of the following:

Particulars	2020	2019
Financial Expenses		
Bank Charges	2,250.00	1,200.00
Interest Expenses	1,894,846.00	1,963,728.00
Total Financial Expense	1,897,096.00	1,964,928.00

19. Non-Cash Expenses

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

Particulars	2020	2019
Depreciation		
Depreciation - Buildings	20,897.34	-
Depreciation - Other Structure	62,742.61	62,380.20
Depreciation - Office Equipment	1,909.56	1,909.56
Depreciation - IT Equipment	40,641.20	47,220.32
Depreciation - Communication Equipment		693.00
Depreciation - Machinery and Equipment	34,250.28	36,410.22
Depreciation - Furniture, Fixture and Books	108,300.00	108,300.00
Depreciation - Transportation Equipment	36,541.72	24,968.52
Depreciation - Other PPE	2,359,310.55	2,326,123.65
Impairment Loss - Loans and Receivables		
Impairment Loss-loans & Receivables	30,732.69	11,729.85
Total Non-Cash Expenses	2,695,325.95	2,619,735.32

PART II

**OBSERVATIONS
AND RECOMMENDATIONS**

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

Dormant Trust Liabilities Amounting to P1,276,530.53

1. **Trust Liabilities** accounts totaling P1,276,530.53 that remained dormant for more than 2 to 10 years could not be ascertained, due to the absence of necessary supporting documents, contrary to Conceptual Framework for Financial Reporting and Section 4(6) of PD No. 1445, thus affecting the reliability, validity, and accuracy of the accounts in the financial statements.

Chapter 4 of the Conceptual Framework for Financial Reporting Framework mentions liabilities as one of the elements of financial statements. A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

An essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty to or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement.

The Trust Liability account showed a total balance of P1,276,530.53 as of December 31, 2020. The said account is comprised of Customers' Deposit Payable and Guaranty Deposits Payable amounting to P1,182,907.69 and P93,622.84, respectively.

The Customers Deposits Payable account represents deposits paid by concessionaires who applied for connections that are to be refunded upon their notice to terminate their account or contract with the District.

Likewise, the Guaranty Deposits Payable account represents retention money withheld from the claims of the contractor as security for any corrective work to be performed on the infrastructure covered by construction contract, which is refundable upon its completion.

Interview with the accounting officer revealed that inactive accounts with arrears were disconnected but their deposits were not claimed/refunded, thus retained in the said account. For several years, the Customers Deposits Payable were not reviewed, analyzed and validated to determine possible offsetting of these accounts with the Accounts Receivable pertaining to the same inactive concessionaires. Consequently, the account remained outstanding and dormant for more than two years.

As regards Guaranty Deposits Payable, the Audit Team noted that despite the expiration of warranty period and completion of the project without noted work deficiencies, the amount which is due for refund was not made due to the absence of necessary supporting documents. Thus, the account remained outstanding and dormant also for more than 10 years.

The existence of a significant amount of long outstanding accounts, absence of necessary supporting documents and the continued inability of management to present proof of payments directly from the concessionaires or supplier/contractor are indications of the questionable validity of the reported balances considering that the liabilities remained dormant and unpaid for several years, thus affecting the reliability, validity and accuracy of the Customers Deposits Payable and Guaranty Deposits Payable accounts in the financial statements.

We recommended that Management instruct the Accounting Officer to:

- a. Review, analyze and validate the dormant customers' deposits account for possible offsetting against outstanding receivables of inactive concessionaires; and**
- b. Exert extra effort to secure the supporting documents to facilitate the review and validation of the long outstanding performance security/guaranty payable.**

Management commented that they will comply with the recommendations.

Unreliable Amount of Loans Payable amounting to P31,422,180.85

- 2. Loans Payable - Domestic account totaling P31,422,180.85 could not be ascertained, due to the absence of necessary supporting documents, contrary to Sections 4(6) and 111 of PD No. 1445, thus affecting the reliability, validity, and accuracy of the account in the financial statements.**

Pertinent provisions of PD No. 1445 provides the following:

Section 4(6) Claims against government funds shall be supported with complete documentation.

Section 111 The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.

The Loans Payable account showed a total balance amounting to P31,422,180.85 as at December 31, 2020. The District's Notes to FS disclosed that this account represents the various outstanding loan balance granted by the LWUA for the implementation of the projects of the District.

The details of the loans are as follows:

Loan Account No.	Particulars	Amount (P)
3 – 590	Construction of Water District level III which includes the Drilling of 1 test/production well at Brgy. Bulbulala, Balaoan, La Union.	1,158,166.92
9 – 0357	Formerly a Non – LWUA Initiated Fund (NLIF) – PFS which is originally a grant and later was classified as ICG Soft loan at 2% per annum as per LWUA Board of Trustee's Resolution No. 001 series 2012.	4,174,799.00
9 – 0607	Financial assistance under the Salintubig program for water supply development project consisting of 50% loan and 50% grant effective February 2016.	2,610,853.00
4 – 2689	Financial assistance for water supply improvement and expansion project under the Third German assisted Provincial Towns Water Supply and Sanitation Program III (KFW PTWSSP III).	21,429,340.43
4 – 2966	Financial assistance for the improvement and expansion of water supply	2,049,021.50
	Total	31,422,180.85

It has been observed that accounting reports such as aging schedule and/or subsidiary ledgers as well as copies of contract of loans and other relevant documents and records to support the long-term loans were not provided to the Audit Team despite repeated requests.

The Audit Team sent a confirmation letter dated February 18, 2020, to LWUA requesting the loan balance as of December 31, 2020, but no reply was received yet as of this writing.

It must be emphasized that payables are recognized as liabilities when the District becomes a party to the contract and, as a consequence, has a legal obligation to pay cash.

Thus, the existence of significant amount of long-term payable accounts, absence of necessary supporting documents, (e.g., contracts, aging/payment schedules), the reliability, validity and accuracy of the Loans Payable - Domestic account could not be ascertained.

We recommended that Management instruct the Accounting Officer to:

- a. Submit the necessary supporting documents such as a copy of the contract of loans including financial and accounting reports, showing the age of the account and payment schedule of loan principal and interest.**

Management commented that they will comply with the recommendation.

B. COMPLIANCE AUDIT

Properties with a book value of P823,319.47 were not insured

3. Several PPE owned by the District with a total book value of P823,319.47 were not insured under the Property Insurance Fund of the GSIS, contrary to pertinent provisions of RA No. 656 or the Property Insurance Law, thus it may result in non-indemnification in case of damage or loss of these properties.

Pertinent provisions of RA 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 in non-indemnification in case of loss or damage:

Particulars	Cost (P)	Accumulated Depreciation (P)	Book Value (P)
Building (Pump House 2) with perimeter fence	150,000.00	81,124.38	68,875.62
Steel Reservoir	350,000.00	61,279.43	288,720.57
Pump Station No. 3 - Baracbac Oeste	214,010.00	37,808.50	176,201.50

Pump Station No. 4 (Pumphouse)	344,470.00	49,948.22	294,521.78
Total	1,058,480.00	220,160.53	823,319.47

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 RA No. 656, direct the GM to insure all permanent structures under the Property Insurance Fund of the GSIS in order to be indemnified in case of any loss or damage of its property.

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. Management commented further that they could not pursue the insurance of Pumping Station No. 2 but will resolve the problem encountered with the lot owner.

Designated Property Officer not bonded

4. **The designated property officer remained not bonded, contrary to Section 4.8 of Treasury Circular No. 02-2009, thus, may result in non-restitution in case of any possible defalcation, shortage and unrelieved loss.**

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 GM and designated Disbursing Officer were bonded. Thus, the non-application of the fidelity bond of the designated Property Officer will result in non-restitution in case of any possible defalcation, shortage and unrelieved loss, hence, deemed reiterated.

We reiterated the prior year's recommendation that Management direct the GM to 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. The bonding of the Property Officer is being considered for the CY 2021.

Unreliable Rate of Reported Non-Revenue Water

- 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 11% for CY 2020 is not accurate, 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 LWUA, under Resolution No. 444 dated September 15, 2009, approved the reduction of maximum acceptable NRW from existing 25 percent to 20 percent applicable to all WDs, 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 NRW in order to enhance its operational efficiency and improve its financial viability. All WDs 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.

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

NRW is water that has been produced and "lost" before it reaches the customer. Losses can either be real losses that occur from overflowing of water source and/or leakages in the pipes, or apparent losses which are 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 2020, the District's total water production reached 468,673 cubic meters, 416,902 cubic meters or 89% were billed to the concessionaires, hence registering

unaccounted water or NRW of 51,771 cubic meters or 11% 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 accurate and reliable data of actual water produced.

Accordingly, while the average NRW of the District of 11% for CY 2020 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 11% 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 11% for CY 2020 could not be ascertained.

We recommended that Management direct the BOD and GM to allocate funds for the procurement and installation of flow meters at the source to generate an accurate water production report and to determine the actual NRW rate.

Management commented that they use volumetric tanks in lieu of the conventional flow meters to determine water production and NRW because the former is more accurate than the latter. Management will allocate funds for the procurement and installation of flow meters for CY 2021. These will be used in Pumping Station No. 2 whose old flow meters were already out of order.

C. STATUS OF SETTLEMENT OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

For CY 2020, the District had no outstanding disallowance, suspension and charge.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATION

Of the 18 prior years' audit recommendations, 10 were implemented, and 8 were not implemented as detailed below:

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>1. Various Lapses on the Application of the Revised Implementing Rules and Regulations (IRR) of Republic Act 9184 or the Philippine Procurement Law</p> <p>Construction of One Storey Administrative Building implemented by Administration:</p> <p>a. Lacked the necessary conditions and documents for review and evaluation as required under Rule II, Section 7 of 2016 Revised IRR of RA No. 9184 and Annex A of GPPB Resolution No. 018-2006, thus, the propriety of its implementation cannot be fully ascertained.</p> <p>b. Procurement of various materials related to the construction of the Administrative Building totaling to ₱1, 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</p>	AAR 2019 (page 26)		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>requisitions and contracts contrary to the provisions of Section 54.1 of the 2016 Revised IRR of RA No. 9184 and COA Circular No. 76-41 dated July 30, 1976.</p> <p>We recommended that Management:</p> <p>1) Submit a copy of the approved Annual Procurement Plan (APP) and documents or justifications to show track record or compliance with the conditions to undertake projects by Administration;</p> <p>2) Submit written justifications on why the District did not conduct public bidding of the project/construction of materials;</p> <p>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</p> <p>4) Ensure strict observance of the provisions of Rule II,</p>		<p>Management had already submitted its APP.</p> <p>Management had already submitted written justification signifying that they followed the procurement process in accordance with Section 8.1.1 of 2016 Revised IRR of RA No. 9184</p> <p>Management had complied with the given recommendation</p> <p>Management had already submitted written justification</p>	<p>Implemented</p> <p>Implemented</p> <p>Implemented</p>

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>requisitions and contracts contrary to the provisions of Section 54.1 of the 2016 Revised IRR of RA No. 9184 and COA Circular No. 76-41 dated July 30, 1976.</p> <p>We recommended that Management:</p> <p>1) Submit a copy of the approved Annual Procurement Plan (APP) and documents or justifications to show track record or compliance with the conditions to undertake projects by Administration;</p> <p>2) Submit written justifications on why the District did not conduct public bidding of the project/construction of materials;</p> <p>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</p> <p>4) Ensure strict observance of the provisions of Rule II,</p>		<p>Management had already submitted its APP.</p> <p>Management had already submitted written justification signifying that they followed the procurement process in accordance with Section 8.1.1 of 2016 Revised IRR of RA No. 9184</p> <p>Management had complied with the given recommendation</p> <p>Management had already submitted written justification</p>	<p>Implemented</p> <p>Implemented</p> <p>Implemented</p>

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
Section 7 of 2016 Revised IRR of RA No. 9184, Section 54.1, same IRR, 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.		signifying that they followed the procurement process in accordance with Section 8.1.1 of 2016 Revised IRR of RA No. 9184	Implemented
<p>2. Various expenses totaling to ₱50,701.39 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 No. 1445, hence indicative of a poor internal control on disbursements which may result in 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 No. 1445.</p>	AAR 2019 (Page 29)	Management had already complied with the recommendation and had stopped the practice of paying expenses through reimbursement basis.	Implemented
3. A discrepancy amounting to ₱32, 226.53 was noted between the balance per book and the actual physical count of PPE as of December 31, 2018, contrary to Section	AAR 2019 (Page 31)		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>58. of PD No. 1445, thus, casting doubt on the accuracy and reliability of the PPE account.</p> <p>We reiterated the prior year's recommendation that Management retrieve all records in order to establish where those water meters were installed or located, thus, the existence of these property can be ascertained.</p>		<p>Management made subsequent follow-ups whenever there are feedbacks from concessionaires about missing properties or water meters. As of this writing, properties could not be traced for recovery or retrieval due to the absence of reliable sources of information.</p> <p>Management will create an inventory and disposal committee and conduct a one time inventory and reconciliation of those missing items</p>	<p>Not Implemented</p>
<p>4. Several permanent structures owned by the District with a total book value of P823,319.47 were not insured under the Property Insurance Fund of the GSIS, contrary to pertinent provisions of RA No. 656 or the Property Insurance Law. Hence, it may result to non-indemnification in case of damage or loss of these properties.</p> <p>We reiterated the prior</p>	<p>AAR 2019 (Page 32)</p>		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
year's recommendation that Management, in compliance with RA No. 656, insure all permanent structures under the Property Insurance Fund of the GSIS in order to be indemnified in case of any loss or damage of its property.		Management is still in the process of insuring its pumping stations.	Not Implemented This is reiterated in Part II of the Report under finding no. 4.
<p>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 No. 1445, hence, these were exposed to deterioration due to wear and tear and may reduce their saleable values to the disadvantage of the government.</p> <p>We reiterated the prior year's recommendation that Management conduct appraisal of the unserviceable properties to be further evaluated by the COA Regional Technical Service, Regional Office, in order to expedite its disposal.</p>	AAR 2019 (Page 33)	Management was not able to dispose those properties due to absence of interested buyers. Management will create an inventory and disposal committee and conduct a one time inventory and reconciliation of those unserviceable properties.	Not Implemented
6. The designated property officer remained not bonded, contrary to Section 4.8 of Treasury Circular No. 02-2009, thus, may result in non-restitution in case of any possible defalcation,	AAR 2019 (Page 34)		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>shortage and unrelieved loss.</p> <p>We reiterated the prior year's recommendation that Management include the designated Property Officer in the application of Fidelity Bond from the Bureau of Treasury.</p>		<p>Management will consider the bonding of its designated property officer for the CY 2021</p>	<p>Not Implemented</p> <p>This is reiterated in Part II of the Report under finding no. 5</p>
<p>7. A Water Safety Plan (WSP) 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.</p> <p>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.</p>	<p>AAR 2019 (Page 35)</p>	<p>Management had already complied with the given recommendation.</p>	<p>Implemented</p> <p>WSP was prepared and submitted to LWUA for evaluation</p>
<p>8. Due to the absence of flow meters from the main water sources of the District, the reliability and accuracy of the reported</p>	<p>AAR 2019 (Page 36)</p>		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>NRW rate of 11% for CY 2019 is doubtful, thus, compliance with LWUA Resolution No. 444 series 2009 on tolerable NRW of 20% could not be assured.</p> <p>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 NRW rate.</p>		<p>Management had procured and installed flow meters for its pumping stations</p>	<p>Not Implemented</p> <p>This is reiterated in Part II of the Report under finding no. 6</p>
<p>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.</p> <p>a. 2019 GAD Plan and Budget (GPB) and 2018 GAD Accomplishment Report (AR) were submitted to the LWUA for preliminary review as required under PCW Memorandum Circular No. 2015-03.</p> <p>b. 2019 GAD Budget is below the five percent of the 2019 Corporate Budget.</p>	AAR 2019 (Page 38)		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>c. Under-utilization of GAD Budget</p> <p>d. Non-establishment and maintenance of GAD Database.</p> <p>Viewed from the deficiencies noted, we recommended that Management:</p> <p>a. Prepare a GAD Budget in accordance with Section 6.1 of Joint Circular No. 2012-01 of PCW, NEDA and DBM;</p> <p>b. Implement GAD activities pursuant to the approved GAD Plan and Budget; and</p> <p>c. Establish and maintain GAD Database which includes sex-disaggregated data based on various GAD indicators.</p>			<p>Implemented Overtaken by events/deemed implemented</p> <p>Implemented</p> <p>Implemented</p>
<p>10. Absence of Transfer Certificates of Title in favor of the District for parcels of land valued at ₱159,500.00 as well as the three unrecorded land properties rendered the ownership doubtful, contrary to Section 39(2) of the PD No. 1445. In addition, a discrepancy amounting to ₱18,000.00 was noted between books and per deeds of sale.</p>	2018 AAR		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
We reiterated the prior year's recommendation that Management exhaust all possible legal means in securing the Transfer Certificates of Title to establish ownership of lots valued at ₱159,000.00. we also recommend that the donated lots be recorded in the books based on the market value or appraised value of the property as reflected in the Tax Declaration.		Management is currently applying for the Transfer Certificate of Title at a one lot at a time basis due to financial constraints. The application of titles of the District's lots situated in Brgys. Pagleddegan and Baracbac are in process.	Not Implemented
<p>11. Various expenses totaling to ₱127,425.00 were paid thru reimbursements instead of paying directly to the creditors to whom the money is due or to a disbursing officer for official disbursement, contrary to Section 93 of PD No. 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 No. 1445.</p>	2018 AAR (Page 27)	Management had complied with the recommendation	Implemented Verified through post-audit
12. Electric generators used in the operation of the	2018 AAR (Page 27)		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>District do not have Permit to Operate, which is contrary to Section 1, Part VI, Rule XIX of Department of Environment and Natural Resources (DENR) Administrative Order No. 2000-81 Series of 2000, known as the "Philippine Clean Air Act of 1999". Therefore, these may cause harm to the environment and community due to emission of air pollution from generator sets that were not verified by the DENR.</p> <p>We reiterated the prior year's recommendation that Management secure Permit to Operate Air Pollution Installation for all stationary sources of air pollution pursuant to Section 1, Part VI, Rule XIX of the DENR Administrative Order No. 2000-81 Series of 2000.</p>		<p>Management committed to secure permit to operate air pollution installation for CY 2021</p>	<p>Not Implemented</p>
<p>13. 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,</p>	<p>2018 AAR (Page 29)</p>		

Observation and Recommendation	Reference	Action Taken by Management	Result of Auditor's Validation
<p>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>		<p>Management had formulated its - DRRM Plan and submitted to LWUA pending approval.</p>	<p>Not Implemented</p>