

## EXECUTIVE SUMMARY

### A. Introduction

The Malay Water District was organized by virtue of Resolution No. 24 pursuant to Section 5 of PD 198, otherwise known as the Provincial Water Utilities Act of 1973. This was approved by the Sangguniang Bayan of Malay during its special session on October 24, 1996 through Board Resolution No. 083 series of 1996. On December 9, 1996, the Local Water Utilities Administration issued a Conditional Certificate of Conformance No. 559 to Malay Water District.

The District's objective and function is to provide potable and sufficient water for domestic and commercial/industrial use in the area.

### B. Financial Highlights

The Financial Position and the Results of Operations of Malay Water District for the period ended December 31, 2017 as presented below:

#### Comparative Financial Position

2017 compared to previous year

	<b>2017</b>	<b>2016</b>	<b>Inc./Dec.</b>	<b>%</b>
<b>Assets</b>	44,368,553.18	38,902,758.73	5,465,794.45	14.05
<b>Liabilities</b>	25,739,174.84	22,437,305.02	3,301,869.82	14.72
<b>Equity</b>	<b>18,629,378.34</b>	<b>16,465,453.71</b>	<b>2,163,924.63</b>	<b>13.14</b>

2016 compared to previous year

	<b>2016</b>	<b>2015</b>	<b>Inc./Dec.</b>	<b>%</b>
<b>Assets</b>	38,902,758.73	30,297,419.03	8,605,339.70	28.40
<b>Liabilities</b>	22,437,305.02	20,619,117.30	1,818,187.72	8.82
<b>Equity</b>	<b>16,465,453.71</b>	<b>9,678,301.73</b>	<b>6,787,151.98</b>	<b>70.13</b>

2015 compared to previous year

	<b>2015</b>	<b>2014</b>	<b>Inc./Dec.</b>	<b>%</b>
<b>Assets</b>	30,297,419.03	27,004,871.06	3,292,547.97	12.19
<b>Liabilities</b>	20,619,117.30	21,337,881.71	(718,764.41)	(3.37)
<b>Equity</b>	<b>9,678,301.73</b>	<b>5,666,989.35</b>	<b>4,011,312.38</b>	<b>70.78</b>

2014 compared to previous year

	<b>2014</b>	<b>2013</b>	<b>Inc./Dec.</b>	<b>%</b>
<b>Assets</b>	27,004,871.06	25,846,738.54	1,158,132.52	4.48
<b>Liabilities</b>	21,337,881.71	21,894,155.28	(556,273.57)	(2.54)
<b>Equity</b>	<b>5,666,989.35</b>	<b>3,952,583.26</b>	<b>1,714,406.09</b>	<b>43.37</b>

2013 compared to previous year

	<b>2013</b>	<b>2012</b>	<b>Inc./Dec.</b>	<b>%</b>
<b>Assets</b>	25,846,738.54	25,826,099.34	20,639.20	0.08
<b>Liabilities</b>	21,894,155.28	22,833,089.18	(938,933.90)	(4.11)
<b>Equity</b>	<b>3,952,583.26</b>	<b>2,993,010.16</b>	<b>959,573.10</b>	<b>32.06</b>

2012 compared to previous year

	<b>2012</b>	<b>2011</b>	<b>Inc./Dec.</b>	<b>%</b>
<b>Assets</b>	25,826,099.34	25,933,957.67	(107,858.33)	(0.42)
<b>Liabilities</b>	22,833,089.18	23,428,194.59	(595,105.41)	(2.54)
<b>Equity</b>	<b>2,993,010.16</b>	<b>2,505,763.08</b>	<b>487,247.08</b>	<b>19.44</b>

### Comparative Profit or Loss and Other Comprehensive Income

2017 compared to previous year

	<b>2017</b>	<b>2016</b>	<b>Inc./Dec.</b>	<b>%</b>
<b>Revenue</b>	16,391,385.24	13,528,665.71	2,862,719.53	21.16%
<b>Expenses</b>	14,227,460.61	8,407,393.73	5,820,066.88	69.23%
<b>Comprehensive Income (Loss)</b>	<b>2,163,924.63</b>	<b>5,121,271.98</b>	<b>(2,957,347.35)</b>	<b>(57.75%)</b>

2016 compared to previous year

	<b>2016</b>	<b>2015</b>	<b>Inc./Dec.</b>	<b>%</b>
<b>Revenue</b>	13,528,665.71	12,296,535.92	1,232,129.79	10.02
<b>Expenses</b>	8,407,393.73	8,285,283.54	122,110.19	1.47
<b>Comprehensive Income (Loss)</b>	<b>5,121,271.98</b>	<b>4,011,252.38</b>	<b>1,110,019.60</b>	<b>27.67</b>

2015 compared to previous year

	<b>2015</b>	<b>2014</b>	<b>Inc./Dec.</b>	<b>%</b>
<b>Revenue</b>	12,296,535.92	10,321,149.88	1,975,386.04	19.14
<b>Expenses</b>	8,285,283.54	9,081,818.97	(796,535.43)	(8.77)
<b>Comprehensive Income (Loss)</b>	<b>4,011,252.38</b>	<b>1,239,330.91</b>	<b>2,771,921.47</b>	<b>223.66</b>

2014 compared to previous year

	<b>2014</b>	<b>2013</b>	<b>Inc./Dec.</b>	<b>%</b>
<b>Revenue</b>	10,321,149.88	9,705,977.61	615,172.27	6.34
<b>Expenses</b>	9,081,818.97	8,916,461.06	165,357.91	1.85
<b>Comprehensive Income (Loss)</b>	<b>1,239,330.91</b>	<b>789,516.55</b>	<b>449,814.36</b>	<b>56.97</b>

2013 compared to previous year

	<b>2013</b>	<b>2012</b>	<b>Inc./Dec.</b>	<b>%</b>
<b>Revenue</b>	9,705,977.61	8,223,717.29	1,482,260.32	18.02
<b>Expenses</b>	8,916,461.06	7,780,716.43	1,135,744.63	14.60
<b>Comprehensive Income (Loss)</b>	<b>789,516.55</b>	<b>443,000.86</b>	<b>346,515.69</b>	<b>78.22</b>

2012 compared to previous year

	<b>2012</b>	<b>2011</b>	<b>Inc./Dec.</b>	<b>%</b>
<b>Revenue</b>	8,223,717.29	6,703,046.97	1,520,670.32	22.69
<b>Expenses</b>	7,780,716.43	6,852,063.87	928,652.56	13.55
<b>Comprehensive Income (Loss)</b>	<b>443,000.86</b>	<b>(149,016.90)</b>	<b>592,017.76</b>	<b>(397.28)</b>

### C. SCOPE OF AUDIT

The audit covered the examination on a test basis of the accounts and financial transactions and operations of the Malay Water District for the period January 1, 2012 to December 31, 2017 in accordance with International Standards of Supreme Audit Institutions (ISSAIs). The audit also involved performing procedures to ascertain the propriety of financial transactions and compliance of the Water District to prescribed laws, rules and regulations.

### D. AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

A qualified opinion was rendered on the fairness of presentation of the Calendar Years (CYs) 2012 to 2017 financial statements in view of the significance of the matters discussed in the Bases for Qualified Opinion paragraph in the Independent Auditor's Report, as follows:

1. The accuracy and existence of year-end balances of Merchandise Inventory for Calendar Years 2012 to 2017 could not be ascertained due to discrepancies noted between the financial statements and Reports on the Physical Count of Inventories, non-preparation of supplies ledger cards, absence of periodic reconciliation and non-creation of an Inventory Committee contrary to Section 490 of the Government Accounting and Auditing Manual (GAAM), Volume I.
2. The PPE account was not fully supported by Property Cards (PC) and their respective lapsing schedules were not prepared, thus, the information as to descriptions, transfers and disposals of properties could not be readily obtained contrary to Sections 111 and 114 (2) of Presidential Decree) (PD) No. 1445.
3. Physical inventory of Property, Plant and Equipment was neither conducted nor a report prepared thereon contrary to Section 490 of the Government Accounting and Auditing Manual (GAAM) Volume I, thus, quantity, existence and condition of the Property, Plant and Equipment (PPE) could not be ascertained.
4. Unserviceable properties were not reclassified to Other Assets account, thus, overstating the Property, Plant and Equipment (PPE) account contrary to Philippine Accounting Standards 16 and Section 79 of Presidential Decree 1445 casting doubt on the management's assertion of classification, valuation, and accurate presentation of accounts in the financial statements.
5. Two (2) parcels of land purchased by the District valued at ₱40,000.00 and ₱0.700 million are not evidenced by Transfer Certificates of Title contrary to Section 39 of Presidential Decree (P.D.) No. 1445 and Section 449 of the Government Accounting and Auditing Manual (GAAM) Volume I.

## E. SIGNIFICANT FINDINGS AND RECOMMENDATIONS

Below is the summary of several significant audit observations and their corresponding recommendations which are discussed in detail in Part II of this report.

1. Collections were not deposited intact with Authorized Government Depository Bank resulting in accumulated year-end balances of ₱123,273.31 (CY 2012), ₱12,947.77 (CY 2013), ₱175,093.10 (CY 2014), ₱94,372.96 (CY 2015), ₱38,765.06 (CY 2016), and ₱257,781.92 (CY 2017) contrary to Section 69(1) of P.D. 1445 and Section 134 of the GAAM Volume I, thus, exposed government funds to risk of loss thru theft and misappropriation.

We recommended that the Collecting Officer strictly comply with the provisions set by Section 69(1) of P.D. 1445, Section 28 of COA Circular No. 92-382 and Section 134 of the GAAM Volume I to avoid risk of loss thru theft and misappropriation. Set cut-off period for accounting of collections for the day that should be deposited before the close of banking hours and ensure that collections after cut-off are kept in a safe or vault.

2. The fidelity bonds of Accountable Officers were not renewed while the Interim General Manager remained not bonded contrary to Section 101(2) of PD No. 1445 and Sections 4.3 and 6.1 of the Bureau of Treasury Circular No. 02-2009 dated August 6, 2009 therefore, funds might not be protected in the event of defalcations, shortages, and unrelieved accountabilities.

We recommended that all accountable officers be appropriately bonded and their fidelities insured in accordance with Section 101(2) of PD 1445 and 4.3 and 6.1 of Bureau of the Treasury Circular No. 02-2009 dated August 6, 2009. Considering that the Interim General Manager has already retired from government service as of date, we emphasize that subsequent General Manager appointees should be bonded as they have primary responsibility over monies and properties of the District as its head.

3. Poor monitoring of District's accounts receivable resulted in accumulation of concessionaires' past due accounts totaling ₱1.167 million aged over 120 days and inactive concessionaires' accounts totaling to ₱0.897 million which constitute 47.32 percent and 36.37 percent, respectively, of the total Accounts Receivable as of December 31, 2017 amounting to ₱2.466 million contrary to Section 64, paragraph 2 of the Government Accounting and Auditing Manual Volume I. This also inadvertently affected cash inflow to cover operational expenses and repayment of long-term loan of the District.

We recommended the following courses of actions:

- a. Review the existing collection system. Strictly enforce the disconnection policy in case of failure of payment of water bills to minimize past due accounts to tolerable level;
- b. Exhaust effective strategies by launching an aggressive campaign to improve collection efficiency. Partial or other payment plans be formally established and incorporated in the collection letters to encourage settlement of past due accounts;
- c. Execute legal action on concessionaires with long overdue accounts; and
- d. Request from COA authority to write off accounts receivables where probability of collection is remote.

4. Payment for repairs and maintenance of motor vehicles owned by the District were not supported with complete documentation as required by Section 362, Volume I of Government Accounting and Auditing Manual (GAAM), therefore, rendering the propriety of the disbursements doubtful.

We recommended that the District should comply with the general rules for the maintenance and repair of government vehicles as required by Section 362, Volume I of GAAM and install a sound internal control to ensure the reasonableness of the transactions.

5. Non-release of additional funds from Local Water Utilities Administration pursuant to LWUA Board Resolution No. 19, series of 2009 and Memorandum of Understanding dated December 23, 2009 resulted in the delay in completion of Malay Water Supply System Improvement Project and consequently in the non-recovery of the remaining 15 percent Advance Payment in the amount of ₱2.483 million.

We recommended that the Management should make representations to proper authorities for the possible source/s of financial assistance for the continuation of its Malay Water Supply System Improvement Project so that the intended purpose would be accomplished and that the 15% advance payment be totally recouped/recovered from the contractor. Otherwise, demand the refund of the remaining amount of ₱2.483 million.

6. GSIS contributions/premiums of some employees of the District totaling ₱133,660.55 were not remitted in violation of Republic Act (R.A.) 8291, thus depriving them of life insurance, retirement, and all other social security protection such as disability, survivorship, separation, and benefits in case of untimely death or accidents might happen to them.

We recommended that management enforce strict reconciliation of the balances of unremitted GSIS contributions/premiums of their employees and cause the immediate remittance as soon as possible in compliance with Republic Act (R.A.) 8291.

7. The Corporate Operating Budgets (COB) of the District for Calendar Years 2012-2017 were not prepared in accordance with Corporate Budget Memorandum No. 34 dated December 28, 2012 nor submitted to the Department of Budget and Management (DBM) for review and approval, thus, is not assured as to regularity and effectiveness.

We recommended that management comply with DBM Corporate Budget Memorandum No. 34 and the subsequent Corporate Budget Memorandum in the preparation of COB for upcoming fiscal periods.

Also, we recommended compliance with all the required processes concerning the Corporate Operating Budget of the Water District comprising among others of having it reviewed by the DBM, and submission of the approved copy to the Office of the Auditor to facilitate tracing and monitoring of transaction in the utilization of the agency's fund.

8. Copies of Purchase Orders (POs) and Inspection and Acceptance Reports (IAR) on the procurement of supplies and materials were not submitted to the Audit Team for the conduct of timely evaluation and inspection of items purchased, contrary to Section A (1-2) of COA Circular No. 96-010 dated August 15, 1996 and COA Circular No. 2009-001 dated February 12, 2009, respectively.

We recommended that copy/ies of Purchase Orders and Acceptance and Inspection Reports (IAR) irrespective of amount, together with its supporting documents be furnished to the Audit Team within five working days from the execution/issuance thereof as required under Section A (1-2) of COA Circular No. 96-010 and COA Circular No. 2009-001, respectively in order to have early information of the agency's procurement and schedules of deliveries of supplies, materials and equipment and in order to conduct timely review or technical evaluation thereof.

9. The District did not prepare and submit Gender and Development Plan contrary to Executive Order No. 273, Sections 2.3 and 6.1 of Joint Circular No. 2012-01 of the Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and Department of Budget and Management (DBM) and MC No. 2015-03 of PCW, hence, gender and development efforts remain to be institutionalized.

We recommended that a GAD Plan and Budget be prepared to include the allocation for GAD of at least five percent (5%) of the District's total budget that would address gender issues and concerns in compliance with the aforesaid Joint Circular as well as compliance with PCW Memorandum Circular No. 2015-03 dated May 19, 2015 on "Guidelines on the Review and Endorsement of Water District Annual Gender and Development Plans and Budgets".

#### 10. Non-Revenue Water

- 10.1 Non-compliance with LWUA Memorandum Circular 014-10 on performance audit of water meters resulted in doubtful accuracy of readings and billings.

We recommended that management comply with Memorandum Circular 014-10 and prepare a formal documented result of performance audit conducted on water meters.

- 10.2 Average annual non-revenue water (NRW) rate of the District reached 39.46 percent in CY 2016 and 49.43 percent in CY 2017, which is non-compliant with Local Water Utilities Administration (LWUA) Board Resolution No. 444, Series of 2009 which adopted maximum acceptable level of 20 percent only.

We recommended the following measures in order to mitigate the increase of the NRW and maintain it at the prescribed maximum acceptable level:

- a. Formulate an NRW Strategic Plan and prepare the Work Program which should include: baseline data and targets, financial allocations for projects and maintenance, procedures for monitoring production meters, billed/unbilled and unauthorized water consumption, leakages and overflows from reservoirs/storage tanks, among others;
- b. Calculate the rate of water loss based on percentage, infrastructure leakage index, and physical loss; and
- c. Conduct regular performance audit of its water meters.

**F. SUMMARY OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

Of the 11 audit observations and recommendations in prior years' audit report, two were fully implemented, three were partially implemented and six were not implemented and are being reiterated in this report.

**G. STATUS OF SUSPENSIONS, DISALLOWANCES, AND CHARGES AS OF DECEMBER 31, 2017**

The total audit suspensions, disallowances and charges found in the various transactions of the agency as of December 31, 2017 is ₱17,785.72 consisting of Notice of Suspension.