## EXECUTIVE SUMMARY

## A. Introduction

### Agency Profile

The mission of the Laguna Water District (LWD) is to provide safe, quality and reliable supply of water in a cost-effective and efficient manner. The LWD was formerly known as the Los Baños Waterworks. It became operational sometime in the 1920s.

The LWD was recognized by the Sangguniang Bayan of Los Baños to function as an independent and separate Office on January 10, 1977, thus renaming the Los Baños Waterworks as the Los Baños Water District. The actual operation of the Los Baños Water District began on February 11, 1977 and the Certificate of Conformance (COC) No. 038 was issued in May 1977.

After the annexation of the adjoining Municipalities of Bay and Calauan, Laguna, it became the Laguna Water District. It delivers potable water to the Municipalities of Los Baños, Bay, Calauan and some parts of Victoria and Nagcarlan, Laguna. It maintains 17 water sources which supplies 41,767 households.

On February 6, 1992, all local Water Districts were declared as Government-Owned and Controlled Corporations (GOCCs) with original charter which falls under the jurisdiction of the Civil Service Commission (CSC) and the Commission on Audit (COA).

On November 3, 2015, the LWD had entered into a Joint Venture Agreement (JVA) with the consortium of Equi-Parco Construction Company, TwinPeak Hydro Resources Corporation, and MetroPac Water Investments Corporation.

After the execution of the JVA, the Special Purpose Corporation (SPC) and the LWD, as co-joint venturers, created and established a Joint Venture Company (JVC) named "Laguna Water District Aquatech Resources Corp. (LARC)." The primary purpose of the JVC is to act as operator, contractor and/or agent of the LWD in performing the mandate of the LWD under Presidential Decree (PD) No. 198.

The LWD has 15 regular and 2 contractual employees as of December 31, 2022. The Board of Directors (BOD) appointed Mr. Jesus Miguel V. Bunyi as the General Manager starting on October 4, 2021. The BOD is the policy-making body of the LWD. It is composed of five members appointed by the Provincial Governor as provided in PD No. 198.

The following are the members of the BOD as of December 31, 2022:

| Name | Position | Sector |
|---|---|---|
| Atty. Ronald L. Solis | Chairman | Professional |
| Mr. Benito U. Romena | Vice Chairman | Civic |
| Ms. Aleli Teresa L. San Agustin | Member | Education |
| Ms. Elenita F. Ramos | Member | Women |
| Mr. Cecilio L. Magsino | Member | Business |

## B. Scope and Objectives of the Audit

The audit covered the accounts and operations of the LWD for the Calendar Year (CY) 2022. The objectives of the audit are to (a) verify the assurance that may be placed on Management's assertions on the financial statements; (b) recommend agency improvement opportunities; (c) determine compliance with existing laws, rules and regulations; and (d) determine the extent of implementation of prior year's audit recommendations.

## C. Financial Highlights

The LWD's financial position and results of operations for CY 2022 with comparative figures for CY 2021 are summarized below and shown in detail in the attached audited financial statements.

| | 2022 | 2021 | Increase/ (Decrease) |
|---|---|---|---|
| **Financial Position** | | | |
| Assets | ₱ 318,127,668.15 | ₱323,794,480.65 | ₱ (5,666,812.50) |
| Liabilities | 90,467,530.95 | 106,433,991.32 | (15,966,460.37) |
| Equity | 227,660,137.20 | 217,360,489.33 | 10,299,647.87 |
| **Results of Operations** | | | |
| Income | 33,691,754.32 | 33,693,161.53 | (1,407.21) |
| Expenses | 22,771,275.63 | 21,250,809.08 | 1,520,466.55 |
| Net Income | 10,920,478.69 | 12,442,352.45 | (1,521,873.76) |

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

The Audit Team rendered a qualified opinion as to the fairness of presentation of accounts in the financial statements of the LWD as of December 31, 2022, due to the following:

1. The accuracy, reliability and existence of the Property, Plant and Equipment (PPE) account, excluding the Land, Land Improvement and Construction in Progress accounts, with a total book value amounting to ₱190,058,784.15, as of December 31, 2022, could not be ascertained due to: (a) unreconciled balances between the Statement of Financial Position (SFPo) and Lapsing Schedule resulting to a variance of ₱119,066,822.32; (b) incomplete inventory taking; (c) missing PPE items; (d) inadequate information in the Report on the Physical Count of Property Plant and Equipment (RPCPPE); and (e) absence of Property Plant and Equipment Ledger Cards (PPELCs), thus, affecting the fair presentation of the PPE accounts in the Statement of Financial Position (SFPo) of the LWD.

2. The balances of the Other Payables, Other Bills/Bonds/Loans Payable, Deferred Credits, and Other Provisions accounts as recorded in the financial statements (FS), amounting to ₱845,732.60, ₱1,050,604.11, ₱12,642,020.84 and ₱7,880,158.83, respectively, aged more than five years, are doubtful due to the absence of complete documents to substantiate the accounts' validity and accuracy, thus, affecting the fairness of the accounts' presentation and reliability of information stated in the FS.

3. Various asset accounts recorded in the General Ledger of the LWD as of December 31, 2022 totaling ₱8,194,394.59 are still not supported with Subsidiary Ledgers (SLs) and other documents to substantiate proof of investment, bonds and others, thereby rendering the accounts' validity, accuracy and reliability doubtful.

4. Completed projects with a total cost of ₱3,280,987.24 under the Construction in Progress (CIP) account were not yet reclassified to its appropriate PPE accounts, thus, overstating the reported balance of the CIP account while understating the corresponding balances of PPE, Depreciation Expenses and Accumulated Depreciation accounts.

5. Seven acquired parcels of lot, without acquisition costs were still not recognized in the LWD's books of accounts, thus, understating the reported balance of the Land account.

6. The account balance of Other Receivables - LARC as of December 31, 2022 of ₱3,986,056.61 did not reconcile with the books of LARC showing a discrepancy of ₱1,300,067.05, casting doubts on the validity and accuracy of the account's balance as reflected in the financial statements of LWD.

7. The LWD did not accrue the Franchise Tax Payable of ₱322,440.00 due on its gross receipts totaling ₱16,122,000.00 in CY 2022, resulting to misstatements of the Net Income and Total Liabilities presented in its Financial Statements at year-end 2022, and precluding payment of franchise taxes due the BIR, of which such funds would be used in financing the projects of the National Government.

8. The existence of dormant and undocumented collectibles recorded under Other Receivables account totaling ₱211,863.55, of which ₱84,551.70 were denied by the debtors, and the absence of supporting schedules on Due from Officers and Employees account amounting to ₱48,095.60, thus affecting the collectability and fair presentation of the said accounts in the Statement of Financial Position (SFPo).

In view of the above exceptions, we recommended that:

1. Management:

   a. direct the Inventory Committee to subject all the PPE items to the annual physical count as of year-end of the ensuing years and prepare the required RPCPPE using the prescribed format under Appendix 73 of the GAM, Volume II, in order to check and establish the proper custodianship;

   b. enjoin the Accounting Section to prepare PPE Ledger Cards, and reconcile the same with the Property Cards and the balance per Lapsing Schedule and General Ledgers; and

   c. adopt the guidelines and procedures set forth in COA Circular No. 2020-006 for the one-time cleansing of PPE account balances that would result to accurate and reliable presentation of PPE accounts.

2. the General Manager direct the assigned personnel per Office Order dated July 29, 2022 to exert additional effort, documenting such efforts, to verify the transactions posted in the previous years' General Ledgers, drawn journal entries, and other related supporting

details to determine the nature of the transactions recorded under the Other Payables, Other Bills/Bonds/Loans Payable, Deferred Credits and Other Provisions accounts. Henceforth, make necessary adjustments, where applicable.

3. Management:

    a. modify its previous Office Order relative to the search of prior years' documents by assigning additional personnel, from their current plantilla, whom Management deem capable of the task, with inclusion of target timeline, monitoring of the status, and documentation of actions undertaken so as to enforce the retrieval of records to substantiate the various assets totaling ₱8,194,394.59; and

    b. require the Senior Accounting Processor B to properly disclose in the Notes to Financial Statements the absence of supporting documents for the Other Investments account totaling ₱4,910,380.65 so as not to misled users of the LWD's financial statements.

4. Management:

    a. secure from LARC the required Certificate of Completion (COC) for all unsupported completed projects and conduct inspection of the same to prove that these projects are indeed completed; and

    b. direct the Senior Accounting Processor B to make the necessary adjusting entries to reclassify the "Repair of Supervisory Control and Data Acquisition (SCADA) System and Installation of Closed-Circuit Television (CCTV) System" project and all the other projects, once COC has been secured, to its appropriate PPE account. Subsequently, compute for the depreciation expense from the date these projects became operational and draw the necessary adjusting entries.

    Moreover, we reiterated our previous year's audit recommendation that the General Manager instruct the Senior Engineer A and Senior Accounting Processor B to trace back transactions from the earlier years to obtain information on the remaining unidentified projects in the CIP account amounting to ₱98,049.55.

5. the General Manager:

    a. immediately act on the proper procedures to facilitate the appraisal of the seven lots that have no acquisition costs recorded in the books or secure their zonal value from the Bureau of Internal Revenue, to be used as basis in recording in the books; and henceforth

    b. instruct the Senior Accounting Processor B to recognize in the books the appraised value or the zonal value of these lots, whichever is higher.

6. Management require the Senior Accounting Processor B to:

    a. retrieve and verify the supporting documents of the transactions posted in the Subsidiary Ledgers of Other Receivables - LARC in the previous years to determine the accuracy and validity of transactions posted therein;

b. make representations with the LARC to reconcile the balances of receivables from them and afterwards, immediately collect the said receivables from LARC; and

c. facilitate the necessary adjusting entries, where necessary, to reflect the accurate balance of Other Receivables - LARC for fair presentation of the account in the financial statements of the LWD.

7. the General Manager:

a. instruct the Senior Accounting Processor B to compute for the amount of the franchise tax (FT) liability corresponding to the 2% FT due from the gross receipts received from LARC from January 2016 to December 31, 2022 and make representations with the BIR for the settlement of the said obligation;

b. require the Senior Accounting Processor B to accrue the Franchise Tax Payable corresponding to 2% from the monitoring fees being paid by the LARC, so that appropriate payment can be made to the BIR in accordance with the BIR Ruling No. 694-19; and

c. ensure that franchise taxes are filed and paid within the prescribed deadlines set by the BIR, in compliance with Section 119 of the NIRC, as amended.

8. Management exhaust all possible legal remedies in collecting the receivables and document the process as proof of procedures undertaken in support of their request for write-off per Board Resolution No. 074-2022 dated July 21, 2022 following the procedures prescribed in COA Circular No. 2016-005 dated December 19, 2016.

   Henceforth, we recommended that Management direct the Senior Accounting Processor B to ensure that all receivables are duly supported with valid documentation of claims, increase its efforts to monitor the same and implement effective measures to facilitate collection before accounts become dormant.

**E. Other Significant Audit Observations and Recommendations**

Below are the other significant observations and recommendations in the audit of the LWD for CY 2022 which are discussed in detail in Part II of the Report.

1. LWD's 10 acquired parcels of lot, of which three parcels have a total acquisition costs of ₱2,697,311.00, are not yet covered with Transfer Certificate of Title (TCT) under the name of LWD, thereby posing risk of third party claims and possible loss as various facilities are existing in the said property.

   We recommended that the General Manager direct their designated personnel to expedite the process of titling of lots under the name of the LWD by taking the necessary steps to establish legal ownership in order to safeguard the properties from third party claims and/or illegal disposition.

2. The LWD's disposition of the amount of ₱130,000,000.00 received as advance rental payment per Facilities Lease Agreement remains unresolved with the JVC, contrary to the provisions of Annex A of the LWD Facilities Lease Agreement, and Section 3.02,

Article III and Section 12.03, Article XII of the JVA, thus deprived the LWD of the much needed funds to finance its other programs and projects.

We reiterated our previous year's audit recommendations that Management require the personnel concerned to submit to the Audit Team the related disbursement voucher/s and its supporting documents, in original copies, pertaining to the LWD loan payments to its lenders totaling ₱129,101,598.83, and to require the LARC for the refund of the amount paid by LWD to its lenders as such payment is not in accordance with the provision cited under Section 12.03, Article XII of the JVA.

3. Compliance with the service obligations set forth under Article V, specified in Schedule 5.01(2) of the JVA were not strictly imposed by the LWD to the LARC, thus, depriving the concessionaires of the maximum benefits from the services of LARC.

   We reiterated that the General Manager instruct the LWD Contract Monitoring Unit to strictly impose the terms set forth in the service obligations of the JVC per Schedule 5.01(2) of the JVA by discussing with the LARC possible terms or solution to fully comply with its service obligations, and consider having an addendum in its JVA, since there is still an ongoing Detailed Review, discussing the penalty clause for the non-fulfillment of the same.

4. LWD Contract Monitoring Unit (CMU) was not yet able to impose the adjustment of the Monitoring Fee with the JV Company and finalized its Detailed Review of the JVA, in violation of Section 9.02, Article IX and Section 11.03, Article XI of the JVA, thus, hampering possible increase of its financial viability and opportunities for improvements to be implemented for the benefit of the public.

   We reiterated that Management set specific timeline for the completion of the Detailed Review of the JVA to determine whether targets for the past five-year performance period have been achieved, and to identify the necessary amendments to be undertaken for the improvement of the operations of LARC. Moreover, include in the detailed review the necessary adjustment of monitoring fee to compensate the increasing operating expenses of the LWD.

5. The LWD did not submit an annual report on the status of implementation of JVA, as required by the Department of Finance (DOF) and Governance Commission for Government-Owned and Controlled Corporations (GCG) within the deadline set, contrary to Section 8 of the 2013 Revised National Economic and Development Authority (NEDA) Guidelines and Procedures for Entering into JVA, hence monitoring of the JVA implementation by DOF and GCG was not carried out on time.

   We recommended that Management prepare their annual status report of JVA Implementation for CY 2022 and submit the same to the DOF and GCG within the first quarter of this year and do the same on an annual basis, for monitoring purposes.

6. The LWD CMU did not impose to the LARC the conduct of detailed study on the Bulk Water Development, instead resorted to procurement of the service from a separate entity amounting to P238,600.00, in violation of Sections 2.03(1) and 5.01(2) of the JVA and COA Circular No. 2012-003, thus, unable to address the increasing water demand of its consumers, defeating one of the objectives for which the LWD had entered into JVA with the LARC, and resulting to an unnecessary expense to the LWD.

We recommended that Management:

a. make a strong representation with the LARC on following up the conduct of a detailed study on the Bulk Water Development or negotiating the use of the results of the feasibility study they initiated. If negotiated, enforce recovery of the cost incurred in the procurement of service of Redhydro Incorporated amounting to ₱238,600.00, otherwise, appropriate audit action ensues;

b. impose to the LARC the determination and implementation of the procurement strategy for the bulk water supply requirements of the consumers pursuant to Section 5.01(2) of the JVA in compliance with the provision of continuous water supply to all connected consumers; and

c. require the CMU to strictly monitor LARC's compliance with the terms and conditions stated under Sections 2.03(1) and 5.01(2) of the JVA and take appropriate action for the non-compliance thereof, in case of default by the LARC.

7. The LWD, in coordination with the LARC, has not yet established sewerage, septage management and sanitation service to the JV area, contrary to Section 28 of PD No. 198, as amended, Republic Act (RA) No. 9275, Supreme Court's (SC) Writ of Continuing Mandamus, Local Water Utilities Administration (LWUA) Memorandum Circular (MC) No. 008.16, and Sections 2.03, 2.07 and 5.01(5) of JVA, thus exposing the public to health and environmental threats, and defeating one of the objectives for which the LWD had entered into JVA with the LARC.

   We recommended that Management:

   a. reconsider discussing with LARC the attainment of one of the objectives of the JVA, that is to provide sewerage and septage facilities and come up with agreeable, reasonable sanitation service targets and corresponding impact on tariff, as there is still no express denial of its intent to pursue the establishment of the said project, pursuant to Sections 2.03, 2.07 and 5.01(5) of the JVA; and

   b. enjoin the LWD Joint Venture Selection Committee (JVSC) to cautiously examine and evaluate the unsolicited proposal from the unincorporated consortium of CG Integra Corporation, Cabanatuan City Septage Treatment Corporation and Krystal Clear Water Systems Inc. on the JV undertaking relating to the Financing, Development, Improvement, Operation and Maintenance of the Septage Management System of LWD so as to ensure compliance with the Revised 2013 NEDA JV Guidelines.

8. The Non-Revenue Water (NRW) of the LWD of 25.62 percent exceeded the allowable rate prescribed under Local Water Utilities Administration (LWUA) Memorandum Circular (MC) No. 004-10 by 5.62 percent and higher than the 20.28 percent rate on the Commencement Date of the JVA, thus defeats one of the Operational Performance Criteria provided under Item 3.4, Schedule 5.01(2) of the JVA, resulting to estimated revenue loss of ₱16,306,925.58.

   We reiterated our previous year's audit recommendations that Management enjoin the LWD-CMU to properly monitor and impose the strict compliance by the LARC with the terms and conditions agreed upon in the JVA, particularly on the NRW by formulating effective measures thru creation of a Reduction Program to attain the 20 percent acceptable level on NRW, set by LWUA MC No. 004-10, and enhance operational efficiency.

Moreover, we recommended that Management instruct the LWD-CMU to discuss with the LARC the usual discrepancies noted in the MDS to lessen the frequency of its revisions prior to finalization, and submit the MDS monthly to LWUA, pursuant to LWUA MC No. 018-18 dated August 22, 2018.

9. The LWD has not yet secured an approved Water Safety Plan (WSP) due to delays in the re-submission of a revised WSP based on the initial review and assessment of the LWUA, contrary to Department of Health (DOH) Administrative Order (AO) No. 2014-0027, as amended by AO No. 2014-0027-A, and DOH AO No. 2017-0006, and LWUA Memorandum Circular (MC) No. 010-14, casting doubt on its capability to effectively address water safety and ensure the continuous delivery of safe quality drinking water to its concessionaires.

   We recommended that the General Manager create a WSP Team that will focus in the immediate review of the WSP for its prompt submission to the LWUA for review and endorsement to the DOH, which is tasked to issue the required Certificate of WSP Acceptance, pursuant to DOH AO Nos. 2017-0006 and 2014-0027, as amended by AO No. 2014-0027-A. Afterwards, implement the approved WSP to address accordingly the water quality issues within its jurisdiction, particularly in Los Baños, Laguna.

10. The LWD has not yet entered into a Memorandum of Agreement (MOA) with the Bureau of Fire Protection (BFP) to institutionalize areas of cooperation and coordination for the use, maintenance and reimbursement of cost of fire hydrants, and did not conduct a routine maintenance of its fire hydrants installed within its jurisdiction, contrary to Section 32 of PD No. 198 and Section 7.5.3.4 of the LWUA Operation and Maintenance Manual, thus, the efficiency and effectiveness of its fire hydrants maybe impaired, that could affect on the effort to reduce NRW allocation.

    We reiterated our recommendation that Management execute a MOA with the BFP clearly stating the responsibilities of each party, particularly on a Standard Operating Procedure (SOP) on the usage of fire hydrants during fire; cooperation between two parties on maintenance of fire hydrants; and possible reimbursement on the cost of installation and operation of fire protection facilities, as prescribed under Section 32 of PD No. 198.

    We further recommended the CMU to:

    a. exert efforts on the retrieval of documents related to the location of all fire hydrants under LWD's jurisdiction to fully establish control and ownership over these properties; and

    b. require the immediate preparation of Fire Hydrant Maintenance Program, including of Hydrant Record Cards for proper monitoring of the actual status and conditions of fire hydrants, thus ensuring control measures over said properties.

11. The LWD has neither appropriated funds for Disaster Risk Reduction and Management (DRRM) - related activities in its Corporate Operating Budget (COB) for CY 2022, nor formulated a Public Service Continuity Plan (PSCP) as of year-end, contrary to Sections 4 and 22(e) of RA No. 10121, National Disaster Risk Reduction and Management Council (NDRRMC) Memorandum No. 33, s. 2018 and Civil Service Commission (CSC) Memorandum Circular (MC) Nos. 2 and 12, series of 2021, thus, casting doubts on its capacity to address concessionaires' needs before, during, and after occurrence of disaster or calamities, and its continuous delivery of essential functions during disruptions of services.

    We recommended that the General Manager:

    a. request the Board of Directors to allocate sufficient funds for DRRM-related activities using DRRMP as its basis in the ensuing years;

    b. instruct the Committee on DRRM to monitor the implementation of DRRMP-related activities and prepare the necessary accomplishment report thereon; and

    c. send the members of the Committee on DRRM to trainings/seminars on DRRM to help in the development of a comprehensive PSCP, pursuant to NDRRMC Memorandum No. 33, series of 2018, and CSC MC Nos. 2 and 12, series of 2021. Afterwards, formulate the required PSCP and submit it to the Office of the Civil Defense to ensure that essential functions are continuously delivered even during disruptions.

12. The LWD did not conduct gender analysis and was not able to update its sex-disaggregated data (SDD) resulting to non-finalization of Gender and Development (GAD) Agenda that support the gender-responsiveness of the programs, activities, and projects (PAPs) in its CY 2022 GAD Plan and Budget (GPB), contrary to Philippine Commission on Women (PCW) - National Economic Development Authority (NEDA) - Department of Budget and Management (DBM) Joint Circular (JC) No. 2012-01 and PCW Memorandum Circular (MC) No. 2018-04, thus actual gender issues and concerns may not be properly addressed.

    We recommended that the General Manager send members of the GAD Focal Point System (GFPS) to relevant trainings on GAD, particularly, on the application of gender analysis tools such as Harmonized Gender and Development Guidelines (HGDG) to properly equip them with the knowledge on how to conduct gender analysis.

    Moreover, we reiterated the previous year's audit recommendations that the General Manager enjoin the GFPS-Chairperson to:

    a. plan its own measures to establish an updated GAD database/sex-disaggregated data and facilitate the conduct of gender analysis thereof;

    b. prepare the GPB within the LWD's mandate equal to at least five percent of the COB; and

    c. prioritize the formulation of GAD Agenda pursuant to the guidelines provided in Philippine Commission on Women (PCW) MC No. 2018-04 in order to acquire relevant basis for the formulation of PAPs to be included in the GPB to achieve gender equality and women empowerment.

## E. Status of Implementation of Prior Year's Audit Recommendations

Of the 79 audit recommendations embodied in the preceding Annual Audit Report (AAR), 11 were fully implemented, 43 were partially implemented and 25 were not implemented by the Laguna Water District (LWD).