

## EXECUTIVE SUMMARY

### A. INTRODUCTION

The Sarrat Water District (SWD) was formed by virtue of Sangguniang Bayan of Sarrat, Ilocos Norte Resolution No. 10 on March 9, 1988 pursuant to PD 198, as amended. The creation of the District enabled them to avail of financial and technical assistance of the Local Water Utilities Administration (LWUA), a specialized agency that aids and assists Local Water Districts in the development of water supply systems.

### B. OPERATIONAL HIGHLIGHTS

The Sarrat Water District derives its income mainly from metered sales or water delivery through water meters billed to its concessionaires. In addition, the District collects fines and penalty charges on delinquent accounts.

During the year in audit, the District generated total water sales of ₱6,137,946.27 and collected a total of ₱5,740,579.14 from current bills and current year arrears combined, with a collection efficiency of 93.53%.

Further, the District targeted 1,397 service connections in CY 2019 and attained 1,069 service connections. Total service connections increased by 53 this year compared to 1,016 in CY 2018.

### C. FINANCIAL HIGHLIGHTS

The District's assets, liabilities and equity as of December 31, 2019 were ₱13,576,410.91, ₱31,927,462.79 and ₱ (18,351,051.88), respectively. Comparison of Financial Position is summarized in the table presented below:

Particulars	2019	2018	Increase/(Decrease)
Assets	₱13,576,410.91	₱13,818,271.59	₱(241,860.68)
Liabilities	31,927,462.79	30,713,790.39	1,213,672.40
Equity	(18,351,051.88)	(16,895,518.80)	1,455,533.08

The District is funded from the following sources for CY 2019 with comparative figures for CY 2018. The total gross income showed an increase of ₱309,790.29.

Income/Sources of Funds	2019	2018	Increase/(Decrease)
Waterworks System Fees	₱5,715,095.96	₱5,351,639.30	₱363,456.66
Fines & Penalties-Bus. Inc.	109,235.07	101,171.29	8,063.78
Other Business Income	313,615.24	375,857.68	(62,242.44)
Interest Income	1,307.68	963.67	344.01
Miscellaneous Income	21,037.11	20,868.83	168.28
<b>GROSS INCOME</b>	<b>₱6,160,291.06</b>	<b>₱5,850,500.77</b>	<b>₱309,790.29</b>

Also, total expenses for CY 2019 showed a decrease of ₱(16,155.47). A comparative figure of expenses with CY 2018 is shown below:

Expense Classification	2019	2018	Increase/(Decrease)
Personnel Services	₱2,638,507.45	₱2,420,869.15	₱217,638.30
MOOE	1,991,162.03	1,981,399.69	9,762.34
Financial Expenses	2,281,839.83	2,568,471.58	(286,631.75)
Non-Cash Expenses	688,564.83	645,489.19	43,075.64
<b>TOTAL EXPENSES</b>	<b>₱7,600,074.14</b>	<b>₱7,616,229.61</b>	<b>₱ (16,155.47)</b>

For CY 2019 the District appropriated and utilized the following amounts for each expenditure class. A comparison also of CY 2018 appropriation and utilization is presented hereunder:

Corporate Operating Budget	Personnel Services	MOOE	Financial Expenses	Capital Expenditures
<u>2019</u>				
Budget	₱2,658,217.00	₱3,647,214.00	₱2,281,839.83	₱20,585,000.00
Utilization	2,638,507.45	1,991,162.03	2,281,839.83	431,600.00
Variance	₱ 19,709.55	₱1,656,051.97	-0-	₱20,153,400.00
<u>2018</u>				
Budget	₱2,495,843.00	₱2,613,255.00	₱963,946.00	₱300,000.00
Utilization	2,420,869.15	1,981,399.69	963,946.00	60,000.00
Variance	₱ 74,973.85	₱ 631,855.31	-0-	₱240,000.00

#### **D. SCOPE OF AUDIT AND METHODOLOGY**

The audit of the District was conducted on a test basis covering the accounts and operations of SWD for the calendar year 2019. The examination included the review of operating procedures, interview with concerned officials and employees, verification, reconciliation and analysis of accounts, and such other procedures considered necessary. The audit also aimed to: (a) verify the level of assurance that may be placed on management assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine extent of implementation of prior years' audit recommendations.

#### **E. INDEPENDENT AUDITOR'S REPORT**

The Auditor rendered a qualified audit opinion on the fairness of presentation of financial statements because the following:

1. The existence, accuracy and reliability of various Property, Plant and Equipment accounts with a gross amount of ₱ 18,018,416.60 as of December 31, 2019 could not be ascertained due to the non-conduct of physical count and the non-submission of the required inventory report contrary to Section 58 of PD 1445.

2. Completed projects totaling ₱1,462,119.65 remained in the Construction in Progress (CIP) account, and were not reclassified to the appropriate Property, Plant and Equipment accounts, the same not being in line with COA Circular No. 2020-002 dated January 28, 2020, thus, corresponding depreciation expense was not provided resulting to overstatement of Retained Earnings.

## **F. SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

It is worthy to mention that the District has properly secured an Environmental Compliance Certificate relative to its projects or undertakings which are classified as environmentally critical projects (ECPs) under Presidential Proclamation No. 2146 series of 1981, thus risks associated with its activities are properly monitored and mitigated.

In addition, The District maintained a high Collection Efficiency on the collection of its Water Sales for the past 4 years. For the CY 2019, the District's Collection Efficiency is at 93.53% which showed that the District is effective in implementing its collection policy.

Presented below are the summary of significant audit observations and recommendations:

1. The accuracy and validity of the Loans Payable account amounting to ₱8,502,965.26 as of December 31, 2019 are doubtful due to a discrepancy of ₱350,372.94 as against the balance maintained in the books of Local Water Utilities Administration (LWUA) amounting to ₱8,152,592.32, contrary to Chapter 3 of Philippine Financial Reporting Standards requiring faithful representation of Financial Statements.

We recommended that Management:

- a. Require the Accounting Processor to make thorough reconciliation of the District's records with that of the LWUA's and note the causes of the discrepancy;
  - b. Direct the Accounting Processor to make the necessary adjustments to ensure a fair presentation of Loans Payable in the financial statements; and
  - c. Instruct the Accounting Processor to conduct periodic confirmation of loan balances with the LWUA Loans Department.
2. The Allowance for Impairment of Accounts Receivable (AR) was not adjusted despite the significant changes of the AR balance, contrary to Philippine Accounting Standards (PAS) 39 – Financial Instruments: Recognition and Measurement, thus, receivables amounting to ₱304,650.48 were not presented to their net realizable value.

We recommended that Management:

- a. Formulate an accounting policy on estimating impairment of accounts receivable based on the prepared Ageing of Accounts Receivables, where a certain percentage of loss is probable based on past collection experience; and
- b. Adjust the Allowance for Impairment –Account Receivable account at the end of each year in accordance with the allowance method under PAS 39.

**G. TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES**

Transactions for the period January to December 2019 were passed in audit, hence no Notice of Suspension, Notice of Disallowance or Notice of Charge was issued, thereby leaving a zero balance as of December 31, 2019.

**H. STATUS OF PRIOR YEARS’ AUDIT RECOMMENDATIONS**

Below is the status of implementation of prior years’ audit recommendations embodied in the 2018 Annual Audit Report, details of which are discussed in Part III of the report.

STATUS	NUMBER	PERCENTAGE
Fully Implemented	4	36%
Partially Implemented	3	28%
Not Implemented	4	36%
Total	<b>11</b>	<b>100.00%</b>