

## EXECUTIVE SUMMARY

### A. Introduction

The City of Ilagan Water District, Ilagan City, Isabela, was established by virtue of Section 4 of Presidential Decree (P.D.) Nos. 768 and 479, known and referred to as the “Local Water District Law” and “Provincial Water Utilities Act of 1973”, respectively. The Local Water Utilities Administration (LWUA) awarded the Certificate of Conformance No. 090 to the District on August 30, 1979.

The District’s primary objective is to supply potable water which will meet the domestic demands through creation, maintenance and expansion of reliable and economically viable and sound water supply within the City of Ilagan, Isabela and nearby barangays.

As of year-end, the District is classified as Category C, with 51 regular employees and 3 job order personnel.

A financial and compliance audit was conducted on the accounts and operations of the City of Ilagan Water District for the year ended December 31, 2019. The audit consisted of review of operating procedures, interview of concerned government officials and employees, verification, reconciliation and analysis of accounts, and such other procedures considered necessary to ascertain the fairness of presentation of the financial statements and compliance by the District to laws, rules and regulations.

### B. Financial Highlights

Presented below is the comparative information of the financial condition and operation of the City of Ilagan Water District for CYs 2019 and 2018:

Accounts	2019	2018	Increase/ (Decrease)
Assets	P 94,830,369	P 94,734,049	P 96,320
Liabilities	42,019,540	47,293,795	(5,274,255)
Equity	52,810,829	47,440,254	5,370,575
Income	70,537,968	65,447,442	5,090,526
Expense	65,511,378	59,123,059	6,388,319
Net Income	P 5,026,590	P 6,324,383	P (1,297,793)

Also presented below is the comparative information of the budget and actual expenditure of City of Ilagan Water District for CYs 2019 and 2018:

	2019	2018	Increase/ (Decrease)
Corporate Operating Budget	P 79,588,253	P 81,463,000	P 1,874,747
Actual Expenditure	65,511,378	59,123,059	6,388,319

### **C. Auditor's Opinion on the Financial Statements**

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements because the existence, valuation, and reliability of the Property, Plant and Equipment Accounts with a historical cost of P170,955,874.79 could not be ascertained because the District did not conduct a complete physical count and prepare the required and prescribed Report. Likewise, the Schedule of the PPE accounts include items which were acquired since 1991 but were not provided with details of its condition whether the same are still serviceable, hence, exposing the unserviceable properties to further deterioration and may lower the value of the said items upon disposal. Moreover, Management did not reclassify all of its semi-expendable properties to their appropriate Semi-expendable Accounts, resulting to overstatement of the PPE and the Retained Earnings Accounts. Further, the validity, accuracy, and reliability of the Cash in Bank Local Currency Current account – LBP General Fund as at December 31, 2019 amounting to P114,688.43, could not be ascertained due to unrecorded adjustments in the books amounting to P40,449.59.

### **D. Significant Observations and Recommendations**

1. Payment for mobilization fee totaling P86,500.00 was not supported with an irrevocable standby letter of credit/security bond/bank guarantee, contrary to Item 4 of Annex E of the 2016 Revised Implementing Rules and Regulations of RA 9184 and Section 9.1.1.1 of COA Circular No. 2012-001.

We recommended that Management ensure that supporting documents of the disbursement vouchers are complete to prove the validity and legality of the claims and refrain from paying mobilization fee in the absence of the required irrevocable standby letter of credit/security bond/bank guarantee.

2. The District has entered into a Joint Venture with a private entity without conducting a project presentation with public hearing and without the appropriate review of the Local Water Utilities Administration (LWUA), which are not in compliance with Section 3 of Executive Order (EO) No. 68 dated February 10, 1999 and LWUA Memorandum Circular (MC) Nos. 013.19, 015.19, and 019.19.

We recommended that Management make the necessary follow-up communications to the LWUA on the review of its Joint Venture Agreement, Bulk Water Sales and Purchase Agreement, and Septage Management Agreement with FILIPINAS WATER HOLDINGS, CORP., in compliance with Executive Order No. 68 and to make the necessary arrangements relative to the comments and recommendations to be issued by the LWUA in its review.

3. The Bulk Water Supply Volume and Tariff Rate and Revision agreed into by the District and the FILIPINAS WATER HOLDINGS, CORP. in their Bulk Water Sales and Purchase Agreement (BWSPA) were not reviewed and approved by the LWUA, thus, the validity and the determination whether the same were practicable and profitable to the District could not be established, contrary to the provisions of the

Presidential Decree (PD) No. 198, as amended, and the Letter of Instructions No. 700, s. 1978.

We recommended that Management seek LWUA's review on the volume of the bulk water to be purchased and the tariff rates as this will directly affect the District's financial performance.

4. Review of the Bulk Water Sales and Purchase Agreement (BWSPA) of the District with the FILIPINAS WATER HOLDINGS, CORP. revealed that some provisions therein maybe detrimental or onerous to the District, viz:
  - a) Failure of the District to receive the volume of Treated Water shall result to full payment of the Contract Volume by the District as if the Unreceived Volume had been delivered and taken, while failure of the JVC to provide the Contract Volume shall result to payment of penalty by the JVC, which is equivalent to only 50% of the selling price per cubic meter of the Undelivered Volume;
  - b) The BWSPA did not include a recommendation of the OGCC, thru its Contract Review, on the Measurement and Metering provisions;
  - c) An error was made on the provisions for consequences of default on the payment of Termination amount as the party who is required to pay such amount vests on the District regardless of who the Non-Defaulting Party is;
  - d) In cases of default by the District, it is obligated to pay the JVC the Early Termination Amount equivalent to the book value of the equity of the JV Partner and the present value of all future Free Cash Flows to Equity. At the same time, the District shall assume all outstanding amount of the JVC Loans, any Breakage Costs related to the loans and any contractor Breakage Costs; and
  - e) The assets of the District are also subjected as lien in the event of default by the District, if it is not able to pay the full amount of the Termination amount to the JVC.

We recommended that Management review and revisit the provisions of the BWSPA prior to the commencement of the full operations of the JVC and make the necessary revisions, when warranted, and submit the same to the LWUA for further review to determine whether the provisions therein are not detrimental and onerous to the District. Likewise, we recommended that Management exercise due caution and put the District's interest first before entering into any contract.

5. Review of the Septage Management Agreement (SMA) of the District with the FILIPINAS WATER HOLDINGS, CORP. revealed that some provisions therein maybe detrimental or onerous to the District, viz:

- a) Failure to set-up, maintain and/or replenish an Escrow Account within the prescribed period was listed as an event of default by the District when there was no provision of its creation and maintenance in the Agreement;
- b) The penalties that the District is required to pay in the occurrence of any CIWD event of default was not provided in the Agreement;
- c) An error was made on the provisions for consequences of default on the payment of Termination amount as the party who is required to pay such amount vests on the District regardless of who the Non-Defaulting Party is;
- d) In cases of default by the District, it is obligated to pay the JVC the Early Termination Amount equivalent to the book value of the equity of the JV Partner and the present value of all future Free Cash Flows to Equity. At the same time, the District shall assume all outstanding amount of the JVC Loans, any Breakage Costs related to the loans and any contractor Breakage Costs; and
- e) The assets of the District are also subjected as lien in the event of default by the District, if it is not able to pay the full amount of the Termination amount to the JVC.

We recommended that Management review and revisit the provisions of the SMA prior to the commencement of the full operations of the JVC and make the necessary and clear provisions on the creation and maintenance of Escrow Account and the amount of penalties to be paid by the District in case of CIWD event of default.

Likewise, submit the Agreement to the LWUA for further review to determine whether the provisions therein are not detrimental and onerous to the District. Moreover, we recommended that Management exercise due caution and put the District's interest first before entering into any contract.

#### **E. Compliance with Budgeting Rules and Regulations and the Approved Corporate Operating Budget (COB)**

The District expended within the approved Corporate Operating Budget.

#### **F. Compliance with Tax Laws**

The District has complied with the rules of proper withholding of taxes from its transactions in accordance with the National Internal Revenue Code of the Philippines.

## **G. Remittances of GSIS, Pag-IBIG and PhilHealth Premiums**

The District has timely remitted the GSIS, Pag-IBIG and PhilHealth Premiums in accordance with laws.

## **H. Gender and Development**

The District prepared GAD Plan and Budget as discussed in Part II, Observation No. 19 of this Report.

## **I. Disaster and Risk Reduction Management Program**

The District has coordinated with the Provincial Government of Isabela in its "Plant One Million Trees in One Day" project where Management planted cacao and mahogany seedlings. They also joined in the celebration of the World Water Day with the theme "Sa Tubig Walang Iwanan" where they conducted clean-up drive within the CIWD premises including its water pumping stations to bring awareness for the need to have massive reforestation activity and other initiatives to protect the environment. Likewise, they conducted several maintenance and repairs of several mainlines and supply mains in response with the typhoons that hit their area in 2019. Moreover, training was conducted with the District employees for disaster and other fortuitous events and calamities preparedness.

## **J. Water Safety Plan**

The District has implemented several activities included in their Water Safety Plan to address the risks that threaten the safe quality of drinking water and public health, as required in LWUA Memorandum Circular No. 010.14 and DOH Administrative Order No. 2014-0027.

## **K. Bonding of Accountable Officers**

The District has complied with the proper bonding of its Accountable Officers for government funds and property in compliance with Treasury Circular No. 02-2009 dated August 6, 2009.

## **L. Authorized Government Depository Bank**

The District maintained an account with the Philippine National Bank (PNB) – Ilagan Branch, an account used as Trust Fund for the monetary value of the earned leave credits of the CIWD personnel. The balance of the account per Statement of Financial Position as at December 31, 2019 is P1,028,838.60, which is beyond the maximum deposit insurance coverage of P500,000.00 by the PDIC and for investment purposes. However, the Management is already in the process of closing the account with the PNB and transferring the same with a new account to be opened with the Land Bank of the

Philippines (LBP) – Ilagan Branch per Board of Directors (BOD) Resolution Number 15, s. of 2020 dated July 9, 2020. The District likewise maintained all their remaining accounts with the LBP – Ilagan Branch and Development Bank of the Philippines (DBP) – Ilagan Branch, both Authorized Government Depository Banks in compliance with DOF Department Circular No. 01-2017; DOF DC 002-2016 in relation to DOF DC No. 01-2015.

**M. Compliance on the Payments of Allowances and Benefits**

The District complied with existing rules and regulations on the payment of allowances, benefits and emoluments including propriety of the grant of allowances and benefits to the governing board and/or district officials/employees.

**N. Non-Revenue Water**

The NRW of the District for CY 2019 is 18.85%, which is within the prescribed maximum allowable rate set by the LWUA.

**O. Status of total Suspensions, Disallowances and Charges as at year-end**

The Status of Audit Suspensions, Disallowances and Charges (SASDC) as at December 31, 2019 is presented as follows:

	Beginning Balance	Current year		Ending Balance
		NS/ND/NC	NSSDC	
Suspensions	P 3,276,731.72	-	P -	P 3,276,731.72
Disallowances	1,026,212.40		44,364.00	1,026,212.40
Charges	-	-	-	-
Total	P 4,302,944.12		P 44,364.00	P 4,302,944.12

**P. Status of Implementation of Prior Year’s Audit Recommendations**

Out of the six (6) audit recommendations contained in the CY 2018 Annual Audit Report, two (2) recommendations were implemented, two (2) were partially implemented and two (2) were not implemented and reiterated in Part II of this report.