

EXECUTIVE SUMMARY

A. Introduction

The Malolos Water District now City of Malolos Water District was created in April 1987 pursuant to Sangguniang Bayan of Malolos Resolution No. 16 s. 1983 dated March 22, 1983. The Resolution gave the District the full control of the administration and management of the waterworks operation in Malolos in accordance with Presidential Decree (PD) No. 198, otherwise known as the “Local Water Utilities Act of 1973”, as amended by PD Nos. 768 and 1479.

The District was awarded with the Conditional Certificate of Conformance (CCC) No. 288 on April 28, 1987 by the Local Water Utilities Administration (LWUA). This CCC is the accreditation of LWUA to a newly-formed water district to operate under the standards specification.

The District received on September 13, 2016 an Unsolicited Proposal from Primewater Infrastructure Corp. (PRIMEWATER), for the “Financing, Development, Rehabilitation, Expansion, Improvement, Operation and Maintenance of the Water Supply and Septage System of the City of Malolos Water District” under a Contractual Joint Venture Agreement scheme of Public-Private Partnership (PPP). The proposal of Manila Water was received on October 7, 2016 while the incomplete proposal of Maynilad was received on October 28, 2016.

On July 14, 2017, the District’s Board of Directors under Board Resolution No. 142 approved the recommendation of the JVSC on the detailed evaluation (Stage 1) of the Unsolicited Proposal of PRIMEWATER, since it is the only proponent that submitted an incorporated joint venture proposal while the other proponents submitted an incomplete incorporated joint venture proposal, and authorized the JVSC to proceed with the Negotiation Process (Stage 2).

Thereafter, the District’s issued another Board Resolution No. 176 dated September 8, 2017 declaring PRIMEWATER as the Original Proponent, authorizing the JVSC to sign the Certificate of Negotiation and proceed with the activities for the solicitation of competitive challenge proposals (Stage 3). Finally, the District entered into a JVA with the PRIMEWATER on June 5, 2018 and commence on September 1, 2018.

The District is a Government Owned and/or Controlled Corporation (GOCC) and is an autonomous unit politically and economically independent from the local government. The policies, rules and regulations of the District are set by the five members of Board of Directors (BODs). As of December 31, 2019, the members of BOD are the following:

<u>Name</u>	<u>Position/Designation</u>	<u>Sector</u>
Engr. Bernardo N. Buenaventura	Chairperson	Professional
Dir. Eva M. Fajardo	Vice – Chairperson	Women

<u>Name</u>	<u>Position/Designation</u>	<u>Sector</u>
Dir. Carlo Pacifico U. Aniag	Secretary	Business
Dir. Edmar Abella	Member	Education
Dir. Porfirio D. Ilarde Jr.	Member	Civic

The District is under the management of the Acting General Manager, Engr. Menimel T. Leonardo. It has a total work force of 24 permanent employees.

As of December 31, 2019, the District has a total of 49,942 active service connections and 63 pumping stations/wells operating 24 hours a day and with one contract of agreement for the supply of bulk water to cover water service in the Barangays of City of Malolos and Paombong.

B. Financial Highlights

The comparative analysis of the District's Financial Position and Results of Operation for CYs 2019 and 2018 are shown below.

	2019	2018
Financial Position		
Assets	₱392,179,766.79	₱406,531,172.76
Liabilities	26,031,775.66	29,800,427.52
Equity	366,147,991.13	376,730,745.24
Results of Operation		
Income	26,278,313.20	136,958,320.81
Expenses	34,647,309.36	129,241,734.91
Net Income	(8,368,996.16)	7,716,585.90

C. Scope of Audit

We conducted an audit of the financial transactions and operations of the City of Malolos Water District for the year ended December 31, 2019 on a sampling basis in accordance with the International Standards of Supreme Audit Institutions and Corporate Government Sector Memorandum dated October 4, 2018 prescribing for the General Audit Instructions for the conduct of CY 2019 Audit of Water Districts and for other matters. We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion. The audit was conducted to (a) ascertain the degree of reliance that may be placed on Management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

D. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the District for the year ended December 31, 2019 due to accounting errors and deficiencies that significantly misstated/misrepresented the assets, liabilities and equity accounts, as follows: (a) doubtful accuracy and reliability of liabilities accounts totaling ₱26,031,775.66 due to (i) unsubstantiated recording of adjustments to Accounts Payable; (ii) lack of schedules/details for trust liabilities and other deferred credits accounts amounting to ₱1,661,970.02 and ₱19,821,828.10, respectively; and (iii) discrepancy of ₱42,191.65 between the balance per General Ledger (GL) and Schedule of leave credits; (b) doubtful accuracy, existence and completeness of Property, Plant and Equipment (PPE) account with carrying amount of ₱256,971,839.32 because of (i) unsubstantiated adjustments and incomplete or absence of description of items included in the Lapsing Schedule of PPE with net amount of ₱35,823,379.59; (ii) absence of Report of Physical Count of Property, Plant and Equipment (RPCPPE); and (iii) non-maintenance of Property, Plant and Equipment Ledger Cards (PPELCs) and Property Cards (PCs); and (c) understatement of Other Assets account balance by ₱1,209,514.88 and overstatement of Property, Plant and Equipment and corresponding Accumulated Depreciation accounts by ₱9,057,778.19 and ₱7,848,263.31, respectively, due to the failure to reclassify the carrying value of unserviceable properties.

For the above deficiencies, we recommended that the Acting General Manager and/or the responsible personnel perform the following actions:

(a) For Liabilities accounts, (i) prepare an adjusting entries to ensure the accuracy of the balances of the affected accounts resulting from unsubstantiated adjustments and discrepancy between the GL balance and schedule; (ii) exert utmost efforts to reconcile the balance of the Accounts Payable per books/FS and per schedule; (iii) strengthen efforts to scrutinize the previous years' transactions which can provide the details and information and subsequently prepare the schedule of Guaranty/Security Deposits Payable, Bail Bonds Payable and Other Deferred Credits accounts; (iv) prepare an adjusting entry to reclassify the Bail Bonds Payable to Guaranty/Security Deposits Payable; (v) verify/confirm existence of inactive concessionaires for their guaranty deposits payable for possible offsetting to their unpaid/past due bills; and (vi) see to it that the data/balances to be used was precise when preparing an adjustments to avoid errors that could result to over/understatement of accounts.

(b) For PPE account, (i) prepare the finalized Report on the Physical Count of PPE as prescribed in Section 490 of the GAAM, Volume I; (ii) maintain and update PCs for each PPE items; (iii) exert utmost efforts to investigate discrepancies through conduct of a comprehensive analysis of the PPE lapsing schedule and records; (iv) make the necessary adjustments and reclassification to the proper accounts; (v) update PPELCs/SLs for each PPE item; and (vi) reconcile the report with PPE account balances in the books.

(c) For Other Assets account, (i) reclassify the carrying amount of the unserviceable properties to Other Assets account; (ii) prepare all the necessary documents needed to

dispose the properties identified in the Inventory and Inspection Report of Unserviceable Property including the unserviceable water meters and materials; and (iii) require the appraisal and disposal committee to appraise all unserviceable properties as of December 31, 2019 and the eventual disposal thereof.

E. Summary of Other Significant Audit Observations and Recommendations

The other significant audit observations noted during the audit and the corresponding recommendations are the following:

1. Advances to Officers and Employees account amounting to ₱1,201,762.32 aged more than five years to nine years remained unliquidated as at year end contrary to Section 89 of Presidential Decree (PD) No. 1445; thus, resulted in overstatement of both the Advances to Officers and Employees and Retained Earnings accounts. . (*Observation No. 4*)

We recommended that the Acting General Manager (a) continuously monitor the enforcement of controls in the submission, settlement and liquidation of cash advances by the Finance Division; (b) require the former Management to furnish documents relative to the unliquidated cash advances of the previous officials and employees of the District to be used as the basis of the OGCC in sending demand letters/eventual liquidation thereof; and (c) exert utmost efforts to conduct further investigation and gather evidences, otherwise, initiate appropriate legal action to recover the unliquidated cash advances from officials and employees already separated from the service.

2. The District incurred a substantial loss of ₱8,368,996.16 in CY 2019 or an average net loss of ₱28,988,521.22 for the two years operation under Joint Venture due to the significant decrease in average net income as compared to their operation prior to Joint Venture Agreement (JVA) for a two-year period contrary to Section 2.2 of the governing principles of 2013 NEDA Revised Guidelines and Procedures for entering in JVA between Government and Private Entities dated May 3, 2013. (*Observation No. 6*)

We recommended that the Members of the Board of Directors and the Acting General Manager join efforts to demand for an increase in the annual fix revenue share to address the significant incurrence of net loss of operation of the District for the past two years under JV operation and in the coming years; otherwise, make a financial feasibility study or comparative analysis of financial and operations; and use the results thereof for future management decisions which are deemed most advantageous to the District.

3. The District failed to impose penalties on the late remittances of collections totaling ₱7,167,850.98 from PRIMEWATER which receipt thereof was delayed from 37 days to 159 days contrary to Section 8.5.4 of the Joint Venture (JV) Agreement. (*Observation No. 7*)

We recommended and the Acting General Manager agreed through the Board of Directors to (a) require the PRIMEWATER to remit on time all collections made on accounts receivables with detailed separate report of collections for September 2018 bills aside from August 2018 ARs in arrears and prior months; and (b) make a representation with the PRIMEWATER to expedite the development of Rewards and Penalties Framework pursuant to Section 8.5.4 of the JV Agreement in order to compute the corresponding penalties on late remittances of ARs in arrears to the District.

F. Summary of Audit Suspensions, Disallowances and Charges

The balance of audit disallowances as of December 31, 2018 totaled ₱41,606,331.77 and showed no movement in 2019 because the subject NDs were either on appeal or petition for review with the Regional Office and Commission Proper, respectively, and audit disallowance issued in CY 2019 amounted to ₱15,155.76; thus, showing an unsettled amount of ₱41,621,487.53. Likewise, Notice of Suspension issued in CY 2019 totaled ₱12,699,394.59 was fully settled while Notice of Charge totaling ₱1,923,961.62 issued in CY 2019 is under appeal with the COA Regional Office No. III. The JV share was subjected to 24% Revenue Share equivalent to ₱1,283,289.99 which is not in accordance with Sections 9.4.1 and 9.4.2 of the JV Agreement and subjected for the issuance of Notice of Charge (NC).

G. Status of Implementation of Prior Year's Unimplemented Audit Recommendations

Of the 53 audit recommendations embodied in the CY 2018 Financial Audit Report, 18 were fully implemented, 26 were partially implemented and 9 were not implemented.