

EXECUTIVE SUMMARY

A. Introduction

The Aroroy Water District (AWD) is a government-owned and controlled corporation (GOCC) that operates on the powers and authority conferred to it by Presidential Decree (PD) No. 198, otherwise known as the Provincial Water Utilities Act of 1973, as amended by PD No.768 and PD No.1479. It was granted Conditional Certificate of Conformance No. 137 by the Local Water Utilities Administration (LWUA) after it has complied with the legal requirements of PD No.198. AWD is categorized as a “Category D” Water District.

An audit of the financial transactions and operations of the Water District (WD) was conducted for Calendar Year (CY) 2019. Its objective is to ascertain the fairness of presentation of the financial statements presented by the WD for the purpose of expressing an opinion on these financial statements. It was also conducted to ascertain the validity, propriety and compliance to prescribed rules and regulations of its financial transactions and operations.

To attain the audit objectives, the audit was conducted in accordance with International Standard of Supreme Audit Institutions (ISSAIs). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. Due to the voluminous transactions of the WD, the audit was conducted on a test basis, applying the audit procedures and techniques such as vouching, inspections and interviews.

The following are the operational highlights in terms of service connections, water sales and collections from water bills:

Parameters	Target	Accomplishment	% of Accomplishment
Service Connections	3,000	2,350	78.33%
Sales	₱ 20,200,000.00	₱ 14,737,726.20	72.96%
Collections from Water Bills	₱ 18,536,120.00	₱ 14,322,743.25	77.27%

B. Financial Highlights

Presented below is the comparative data on the financial profile of the WD:

	2019	2018	Increase (Decrease)
Assets	₱ 54,816,771.04	₱ 53,476,378.46	₱ 1,340,392.58
Liabilities	₱ 31,694,224.16	₱ 32,185,774.16	₱ (491,550.00)

	2019	2018	Increase (Decrease)
Equity	₱ 23,122,546.88	₱ 21,290,604.30	₱ 1,831,942.58
Gross Income	₱ 15,051,976.24	₱ 15,557,924.76	₱ (505,948.52)
Personnel Services	₱ 4,921,290.80	₱ 4,968,203.71	₱ (46,912.91)
Maintenance and Other Operating Expenses	₱ 8,511,609.36	₱ 7,256,766.35	₱ 1,254,843.01
Non-Cash Expenses	₱ 0.00	₱ 2,223,525.35	₱ (2,223,525.35)
Net Income/ (Loss)	₱ 1,619,076.08	₱ 1,109,429.35	₱ 509,646.73

C. Independent Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements as of December 31, 2019 due to the following:

1. Bank Reconciliation Statements (BRS) were continually not prepared by the Accounting Processor for the two bank accounts with Land Bank of the Philippines (LBP), thereby, casting doubt on the accuracy and reliability of the balances of Cash in Bank accounts amounting to ₱2.20 million.
2. The accuracy of Property, Plant and Equipment (PPE) accounts balances with total net book value of ₱39.67 million could not be ascertained due to non-conduct of physical count and absence of PPE Ledger Cards (PPELC) and Property Cards (PC).
3. Erroneous recording of accrual and remittances of taxes resulted in the overstatement of three accounts totaling ₱1.08 million and understatement of two accounts totaling ₱0.52 million, thus, affecting the fair presentation of the financial statement.
4. Depreciation was not recognized in CY 2019 on the WD's depreciable assets, hence, Depreciation and Accumulated Depreciation accounts were both understated by ₱2.23 million while the Retained Earnings account was overstated by the same amount.

D. Significant Audit Observations and Recommendations

Financial and Compliance Audit

1. Collections were not deposited intact and were used to grant cash advances to employees, contrary to Item 2.9, Chapter IV of the MGAS-LWD and Section 2 of PD No. 1445, thereby, exposing government funds to possible loss or misappropriation.

We recommended and Management agreed observe strictly, as provided for by law, the following:

- a. Require the Cashier/Cash collecting Officer to deposit intact all collections to the depository bank; and
 - b. Stop the practice of granting cash advances out of collections.
2. Excessive, irregular and unauthorized grant of monetization of leave credits amounting to ₱232,889 were incurred by the WD during the year due to non-observance of the regulations and limitations on monetization provided under PD No. 1445, the Omnibus Rules on Leave, Commission on Audit (COA) Circular No. 2012-001 and Budget Circular No. 2016-2 dated March 29, 2016.

We recommended that Management strictly implement the rules and regulations governing the monetization of vacation leave credits particularly the following:

- a. Ensure that all claims of monetization of vacation leave credits by officials and employees of the WD are supported with all the required documents pursuant to the Omnibus Rules on Leave and COA Circular No. 2012-001;
 - b. Ensure that all claims for monetization are covered with an appropriation or budget;
 - c. Only qualified personnel of the WD shall be allowed to monetize a maximum of 30 days vacation leave/service credits, except those allowed up to 50 per cent of the total accrued leave pursuant to Section 23 of the same Rules on Leave;
 - d. Observe the limitation that five days vacation leave/service credits shall be retained after monetization;
 - e. Ensure that all monetizations are posted and deducted in the leave cards of the concerned personnel; and
 - f. Limit the grant of monetization only to personnel who have sufficient vacation leave credits.
3. Reimbursements of Representation Expenses to the General Manager (GM) and Board of Director (BOD) Chairman amounting to ₱120,000 and ₱21,000, respectively, were not supported with proof of official meeting/conference or attendance of official function, contrary to Section 4 (6) of PD No. 1445 and Annex A of the COA Circular No. 2015-010 and Section 18 of PD No. 198, thus, casting doubt on the validity of claims.

We recommended and Management agreed to establish the propriety of these expenditures by submitting additional documents and written explanation to prove the validity and regularity of the claims to avoid suspension and/or disallowance in audit.

Also, we recommended that the members of the BOD to desist from participating in the management of the WD operations, particular in the procurement processes.

4. The personnel's records relative to vacation and sick leave credits are unreliable due to errors arising from from non-recording and erroneous recording of leave of absences, non-compliance with the documentary requirements thereof and other violations of rules and regulations prescribed under the Omnibus Rules on Leave, Republic Act (RA) No. 9710 otherwise known as the Magna Carta of Women and Section 4(6) of PD 1445, thus, may result to wastage of government funds.

In view thereof, we recommended that Management strictly and immediately comply with the following:

- a. Require the personnel officer or equivalent official performing the functions thereof to make a reconciliation of the leave records of all the personnel taking into consideration the errors/deficiencies noted by the Audit Team and effect the necessary adjustments and submit the updated or corrected leave cards thereof for review and evaluation by the audit team. This shall be based on the following documents:
 - i) Duly accomplished and verified Daily Time Records (DTRs);
 - ii) Properly accomplished and approved Application for Leave filed in time;
 - iii) Duly approved requests for monetization in excess of ten-days, and;
 - iv) Medical certificates certified by a competent and attending physician/s which shall be accompanied by clinical summary filed in time;
- b. Require the Billing Clerk to submit the clinical summary which must reflect the following:
 - i) the gynecological disorder
 - ii) histopathological report
 - iii) operative technique used
 - iv) duration of surgery
 - v) period of confinement, and
 - vi) period of recuperation.
- c. Require the Administrative Clerk to effect deduction on the leave credits for the excess claim of one month of the employee who availed the gynecological leave. If the available leave credits are not sufficient to cover the excess claim, a refund must be demanded from the concerned employee; and

5. Excess remittances to the Home Development Mutual Fund (HDMF) or Pag-IBIG Fund consisting of excess government share deducted from employees in the amount of ₱32,032 and personal share of the GM charged to the funds of the WD in the amount of ₱14,654 or a total of ₱46,686 were made, contrary to Sections 2 and 111 (2) of PD No. 1445 and Rule VI, Section 1 of the Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9679 or the HDMF Law of 2009.

We recommended that Management strictly observe the following:

- a. Require the Accounting Processor to strictly adhere to Rule VI, Section 1 of the IRR of RA No. 9679 or the “HDMF Law of 2009” on the payment/remittance of government share (GS) to the HDMF;
 - b. Refund the excess payment amounting to ₱46,686; and
 - c. Revisit CSC Memorandum Circular No. 19 series of 1999, particularly Rule IV, Section 52 (A.1) on administrative offense which classifies dishonesty as grave administrative offense punishable by dismissal.
6. The WD has no microbiological tests for six months in CY 2019, contrary to the requirement of monthly bacteriological tests of water samples while microbiological results on tests months were not submitted to the LWUA for evaluation, thereby, risking the quality of water supply to its concessionaires.

We recommended that Management strictly comply the following:

- a. Conduct religiously the monthly bacteriological tests, examination and monitoring of residual chlorine for evaluation of LWUA pursuant to the prescribed parameters; and
- b. Submit regularly to LWUA the required monthly water quality monitoring reports on time and secure LWUA’s evaluation reports thereof for reference and guide in monitoring the quality of water served to its concessionaires.

E. Summary of Total Suspensions, Disallowances and Charges as of Year-End

The ending balances of Notices of Suspension/Disallowances/Charges as of December 31, 2019 are as follows:

Particulars	Balance as of 1-01-19	CY 2019		Balance as of 12-31-19
		Issued	Settled	
Suspensions	₱ 0.00	₱ 222,992.00	₱ 0.00	₱ 222,992.00
Disallowances	0.00	407,887.54	0.00	407,887.54
Charges	0.00	0.00	0.00	0.00
Total	₱ 0.00	₱ 630,879.54	₱ 0.00	₱ 630,879.54

F. Status of Implementation of Prior Years' Audit Recommendations

Out of the 69 audit recommendations in CY 2018 and prior year's Annual Audit Reports, 15 were implemented, 18 were partially implemented and 36 were not implemented.