

EXECUTIVE SUMMARY

A. Introduction

The Calabanga Water District (CAWADI) came into existence through Sangguniang Bayan of Calabanga Resolution No. 45 dated July 16, 1981. Its Conditional Certificate of Conformance (CCC) No. 314 was issued by the Local Water Utilities Administration (LWUA) on October 19, 1987. It is categorized as “Category C Water District” effective March 2012 on the basis of 2011 LWD MACRO.

An audit of the financial transactions and operations of the Water District (WD) for Calendar Year (CY) 2019 was conducted. 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 the International Standards 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 for 2019 and 2018 in terms of service connections, water sales and collections from water bills:

2019

	Target	Accomplishment	% of Accomplishment
Service Connections	7,546	7,550	100.05%
Sales	₱ 45,535,651.00	₱ 47,433,337.23	104.17%
Collections from water bills	₱ 41,892,798.92	₱ 47,672,645.16	113.80%

2018

	Target	Accomplishment	% of Accomplishment
Service Connections	7,009	7,133	101.77%
Sales	₱ 43,641,737.05	₱ 42,641,886.72	97.71%
Collections from water bills	₱ 39,277,563.35	₱ 41,248,508.88	105.02%

B. Financial Highlights

The following are the financial highlights composed of comparative financial position and results of operations for CYs 2019 and 2018:

	2019	2018	Increase (Decrease)
Assets	₱ 130,467,749.60	₱ 120,099,598.36	₱ 10,368,151.24
Liabilities	19,940,998.91	21,849,711.12	(1,908,712.21)
Equity	110,526,750.69	98,249,887.24	12,276,863.45

	2019	2018	Increase (Decrease)
Service and Business Income	₱ 52,645,715.27	₱ 47,735,416.85	₱ 4,910,298.42
Shares, Grants and Donations	0.00	7,000,000.00	(7,000,000.00)
Total Income	₱ 52,645,715.27	₱ 54,735,416.85	₱ (2,089,701.58)
Personnel Services	₱ 12,574,308.00	₱ 10,879,581.01	₱ 1,694,726.99
Maintenance and Other Operating Expenses	17,919,139.73	15,057,865.80	2,861,273.93
Financial Expenses	1,252,157.00	1,411,995.00	(159,838.00)
Non-Cash Expenses	7,980,619.84	7,432,027.75	548,592.09
Total Expenses	₱ 39,726,224.57	₱ 34,781,469.56	₱ 4,944,755.01
Net Income	₱ 12,919,490.70	₱ 19,953,947.29	₱ (7,034,456.59)

C. Independent Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements because the collectability and accuracy of Accounts Receivable (AR) is doubtful due to the discrepancy of ₱1.75 million between the General Ledger (GL) and Aging of AR balances and the inclusion of inactive accounts in the amount of ₱3.79 million which constituted 51.98 per cent of the AR balance per Aging Schedule.

D. Significant Audit Observations and Recommendations

Financial and Compliance Audit

1. Medical, Dental and Laboratory Supplies valued at ₱86,600 were not included in the conduct of physical count during the year, thereby, casting doubt on the actual existence of the inventory at year-end. Likewise, Stock Cards of inventories were not updated, thus, hindering the reconciliation of the property and accounting records.

We recommended that Management:

- a) Require the Storekeeper C to regularly update the Stock Cards and use it as basis in the balance per card column of the RPCI and reconcile them with the accounting records; and
 - b) Conduct physical count of all of its Inventories.
2. The Regular Disbursing Officer and the three Special Disbursing Officers of the WD do not prepare/maintain Cash Disbursement Records (CDR), contrary to the provisions of Section 39 of the Manual on the New Government Accounting System (NGAS), Volume II, thus, correctness of the cash advance balance as of a particular period could not be ascertained.

We recommended that Management require the Accountable Officers to prepare and maintain CDR to monitor cash advances and to regularly reconcile their records with the Subsidiary Ledgers (SL) in the Accounting Unit.

3. Petty Cash Fund (PCF) was used to purchase fuel, oil and lubricants, a recurring and operating expense of the WD, contrary to COA Circular No. 97-002 dated February 10, 1997. Moreover, some disbursements out of such fund were not supported with complete documentation as required under COA Circular No. 2012-001 dated June 14, 2012.

We recommended that Management stop the practice of using the PCF for purchases of fuel, oil and lubricants.

Likewise, we recommended that Management require the Petty Cash Custodian to ensure that:

- a) Payments out of the PCF are duly supported with the required supporting documents under COA Circular No. 2012-01;
 - b) PRs and IARs are completely filled-out and signed by concerned official or employee; and
 - c) PCVs are properly accomplished, signed by the Requestor and approved by the General Manager before paying/releasing cash; the "Paid By" and "Cash Received By" portions of Box B are signed after paying/releasing cash; and Boxes C and D are properly accomplished and signed upon submission of liquidation documents, refund and/or reimbursement are made by the Requestor.
4. The Land account amounting to ₱6.82 million, consisted of several parcels of land were not registered with the Registry of Deeds (ROD) and lacks the necessary documents as proof of ownership over them, contrary to Section 13.1 of COA Circular No. 2012-001 dated June 14, 2012.

We recommended that Management cause the immediate registration of the Deeds of Absolute Sale with the ROD where the lands are located to make their ownership legal and binding. Constantly follow-up on the pending application for registration with the ROD, if necessary.

We also recommended that Management secure the Deeds of Donation of the lots being occupied and used by them in order to avoid future conflict with possible claimants of the lands.

5. Procurement of land amounting to ₱2.25 million was not supported with necessary documentation to establish the ownership and accuracy of valuation of the land contrary to the provisions of COA Circular No. 2012-001 dated June 14, 2012, thereby, casting doubt on the regularity and validity of the transaction.

We recommended that Management:

- a) Submit immediately the supporting documents to the Audit Team for post audit purposes;
 - b) Require the Accountant to thoroughly review all disbursement vouchers to determine the completeness of supporting documents as prescribed in COA Circular 2012-001 and to avoid suspension thereof in audit; and
 - c) Facilitate the titling of lot in order to protect its interest over the property for a possibility of any third party claims.
6. The WD virtually complied with the obligation to deduct from officers and employees' compensation the mandatory employee's contribution and the corresponding employer's share for CY 2019, and remitted the same to the Government Service Insurance System (GSIS) pursuant to RA No. 8291 or the Revised Government Service Insurance Act of 1997.

We commended Management for virtually complying with the regulation on the regular deduction and remittance of the premiums and loan repayments to the GSIS. However, we recommended that the difference of ₱4,041 be remitted immediately to the GSIS in order to fully comply with the regulation.

7. Trust Liabilities totaling ₱55,439 were erroneously recorded under Bail Bonds Payable account instead of Guaranty/Security Deposits Payable account, contrary to COA Circular No. 2015-010 dated December 1, 2015, thereby, resulting in the overstatement of Bail Bonds Payable account and understatement of Guaranty/Security Deposits Payable account. Likewise, these payables remained dormant in the books of account as of December 31, 2019, casting doubt on the validity and existence of the payables at year-end.

We recommended that Management:

- a) Conduct a regular review and monitoring of all booked obligations to ensure that only valid claims remain in the books; and
 - b) Comply with Sections 27 and 39 of the Revised IRR of RA No. 9184 on the return or release of Bid Securities and Performance Securities, respectively.
8. Procurement of various supplies and materials in the aggregate amount of ₱2.98 million were supported with deficient supporting documents contrary to the provisions of the Revised Implementing Rules and Regulations (IRR) of RA No. 9184 and COA Circular No. 2012-001 dated June 4, 2012, casting doubt on the procedures adopted by Management for small value procurement.

We recommended that Management:

- a) Submit the supporting documents for our review and evaluation to arrive a decision in audit;
 - b) Ensure that all Purchase Orders are properly filled up particularly on the date received by supplier, date of delivery and term of delivery; and
 - c) Strictly adhere to the pertinent provisions of the Revised IRR of RA No. 9184 and COA Circular No. 2012-001 in the procurement of goods thru alternative modes of procurement.
9. Procurement of food and other supplies amounting to ₱90,168 paid thru cash advances were not supported with the required documents on the appropriate mode of procurement, thus, the most advantageous price for the government may not be obtained to promote transparency and competitiveness in government procurement.

We recommended that Management ensure that all procurements are undertaken by the Bids and Awards Committee (BAC) who is responsible in determining suppliers/caterers who comply with the procurement law to promote transparency and competitiveness in government procurement.

10. The WD resorted to splitting of contracts in the purchase of materials for new connections and leak repairs and desktop computers in the total amount of ₱448,200, evading the posting requirements on the alternative mode of procurement, thus, considered irregular/illegal and depriving the government the opportunity to avail of the most advantageous prices available in the market, contrary to Section 54.1 of the Revised IRR of RA No. 9184.

We recommended that Management direct the BAC to stop the practice of splitting of contracts and strictly adhere to the provisions of RA No. 9184 in all its procurements to avoid possible disallowance in audit.

11. There were procedural lapses in the procurement of infrastructure projects and generator sets indicating non-compliance to the 2016 Revised IRR of RA No. 9184, thus, competitiveness and transparency in the procurement process were not assured.

We recommend that Management:

- a) Strictly follow the provisions of RA No. 9184 and its IRR in all its procurements to ensure competitiveness and transparency;
 - b) Ensure that all contracts entered into by the WD are signed by the witnesses of both parties to the contract; and
 - c) See to it that the drawings/technical plans, specification and copy of the Approved PERT/CPM be made an integral part of the contract.
12. The procurement of T-shirts and souvenir items amounting to ₱124,311 in connection with various activities of the WD qualifies as unnecessary expenditures as defined in COA Circular No. 2012-003 dated October 29, 2012 that resulted in the wastage of government funds.

We recommended that Management stop the practice of using the WD's funds to pay for unnecessary expenditures to avoid disallowance.

13. The WD has not established, operate and maintain wastewater or sewerage facilities as required under RA No. 9275, otherwise known as the Philippine Clean Water Act of 2004, Section 28 of Presidential Decree (PD) No. 198 and Supreme Court Ruling of 2008, thus, wastewater management as part of the national policy and local operation and control of water systems was not prioritized.

We recommended that Management prioritize the establishment, operation and maintenance of wastewater or sewerage facilities the soonest possible time as mandated under Section 28 of PD 198 and Supreme Court Ruling of 2008.

14. Deficiencies were noted in the formulation of FY 2019 Gender and Development (GAD) Plan and Budget (PB), contrary to Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and Department of Budget Management (DBM) Joint Circular No. 2012-01.

We recommended that Management require:

- a) The GAD Focal Point System to comply with PCW-NEDA Joint Circular No. 2012-01 in the preparation of GAD PB; and
- b) The Heads of the implementing departments/offices to fully implement the GAD programs, projects and activities as planned to attain its objectives.

15. The WD's average level of Non-Revenue Water (NRW) which registered at 24.06 per cent, exceeded the maximum acceptable industry standard of 20 per cent resulting in foregone revenue of ₱3.30 million.

We recommended that Management continue implementing its control measures to lower the WD's NRW. The difference of 4.06 per cent must be eliminated and the NRW of 24.06 per cent be reduced to the acceptable standard.

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:

	Beginning Balance (As of December 31, 2018)	This Period January 1 to December 31, 2019		Ending Balance (As of December 31, 2019)
		NS/ND/NC	NSSDC	
Notice of Suspension	₱ 0.00	₱ 0.00	₱ 0.00	₱ 0.00
Notice of Disallowance	872,339.60	0.00	36,700.00	835,639.60
Notice of Charge	0.00	0.00	0.00	0.00
Total	₱ 872,339.60	₱ 0.00	₱ 36,700.00	₱ 835,639.60

F. Status of Implementation of Prior Years' Audit Recommendations

Out of the 44 audit recommendations incorporated in the prior years' Annual Audit Reports, which covered CYs 2012 to 2018, 14 were fully implemented, 24 were partially implemented, and six remained not implemented during the year 2019.