

EXECUTIVE SUMMARY

A. Introduction

The Agency

The initial construction of the water supply of the City of Catbalogan was in 1995 under the management of the local government. Upon its creation in 1995, it was transferred to the National Waterworks and Sewerage Authority (NAWASA).

The Catbalogan Water District (CatbWD) was created through Sangguniang Bayan Resolution No. 66 approved in July 5, 1978 based on the national policy, the Presidential Decree (PD) No. 198 known as Provincial Water Utilities Act of 1973, favoring local operation and control of water systems; authorizing the formation of local water districts and providing for the government and administration of such districts; chartering a national administration to facilitate improvement of local water utilities; granting said administration such powers as are necessary to optimize public service from water utility operations, and for other purposes. On December 7, 1979 the Local Water Utilities Administration awarded Conditional Certificate of Conformance No. 107 to the CatbWD.

The CatbWD is managed by Engr. Ralph S. Uy and assisted by 37 regular employees, 15 casual employees, and 32 Job Order (JO) workers.

The Board of Directors (BOD) is composed of the following:

Table 1. Members of the BOD as at December 31, 2019

Name	Sector	Term of Office
Dr. Pedrito G. Padilla	Education	January 1, 2019 to December 31, 2024
Mr. Vincent G. Navarette	Professional	September 17, 2019 to December 31, 2022
Mr. Rolando T. Ko	Business	January 1, 2017 to December 31, 2022
Ms. Myra Gay M. Tambor	Women	January 1, 2015 to December 31, 2020
Mr. Jose A. Mabulay	Civic	January 1, 2015 to December 31, 2020

Pursuant to COA Circular No. 2015-003 dated April 16, 2015, water districts were among those identified under Annex A thereto as Government Business Enterprises (GBE), for the purpose of determining the applicable Financial Reporting Framework in the preparation of their financial statements.

Audit Scope and Methodology

The audit consisted of review of operating procedures and such other procedures considered necessary to ascertain the fairness of presentation of the financial statements. The audit covered the financial operations of the CatbWD for the year ended December 31, 2019, and was conducted to ascertain the propriety of financial transactions and compliance of the agency with rules and regulations. It was also conducted to determine whether the agency managed and utilized its resources economically, efficiently and effectively in the implementation of its programs, projects and activities.

B. Financial Highlights

The comparative financial position and comprehensive income for CYs 2019 and 2018 are shown in Table 2. The comparative budget vis-à-vis actual expenditures are shown in Table 3 and 4, respectively.

Table 2. Comparative Financial Position and Comprehensive Income

Elements	CY 2019	CY 2018	Increase (Decrease)	
			Amount	%
Assets	128,867,692.41	136,696,660.15	(7,828,967.74)	6%
Liabilities	26,680,332.51	40,002,309.54	(13,321,977.03)	33%
Equity (Deficit)	102,187,359.90	96,694,350.61	(5,493,009.29)	6%
Gross Income	65,564,778.11	65,917,899.13	(353,121.02)	1%
Total Expenses	64,505,232.38	57,048,068.26	(7,457,164.12)	3%
Net Income/(Net Loss)	1,059,545.73	8,869,830.87	(7,810,285.14)	88%

Table 3. Budget vis-à-vis Actual Expenditures CY 2019

Expenditures	Budget	Actual	Difference
Personal Services	33,742,821.85	26,145,354.53	7,597,467.32
Maintenance and Other Operating Expenditures	43,748,825.12	27,261,794.30	16,487,030.82
Capital Outlay	48,183,159.41	8,091,707.99	40,091,451.42
Total	125,674,806.38	61,498,856.82	64,175,949.56

Table 4. Budget vis-à-vis Actual Expenditures CY 2018

Expenditures	Budget	Actual	Difference
Personal Services	₱ 27,658,560.63	₱22,022,274.26	₱ 5,636,286.37
Maintenance and Other Operating Expenditures	37,671,178.72	28,759,493.16	8,911,685.56
Capital Outlay	57,472,399.85	6,092,672.74	51,379,727.11
Total	₱ 122,802,139.20	₱56,874,440.16	₱ 65,927,699.04

C. State Auditor's Opinion on the Financial Statements

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of the CatbWD for the year ended December 31, 2019. As discussed in detail in Part II- Audit Observations and Recommendations of the report, the following observations materially affected the fair presentation of the financial statements of the agency:

1. Accuracy of Property, Plant and Equipment (PPE) with a carrying value of ₱ 102,443,971.08 or 79.50% of total assets, could not be ascertained due to: a) recognition of project-related costs and food expenses to the Plant-UPIS; b) recognition of Land Improvements-Reforestation Projects to the expense account; c) non-provision of depreciation for Other Exploration and Evaluation Assets account; d) non-recognition of impairment losses for all PPE; e) absence of PPE Ledger Cards (PPELC) and f) incomplete information provided on subsidiary ledgers, casting doubt on the balance of PPE accounts. (Audit Observation No. 1)
2. Validity of the derecognition of property, plant and equipment (PPE) with costs totaling ₱8,023,320.48 or 6.23% of the total assets was not established due to absence of proof that the guidelines on disposal of government properties was complied with, resulting in understatement of assets and Retained Earnings/(Deficit). (Audit Observation No. 2)
3. Money value of the accumulated leave credits of the employees totaling ₱5,717,700.49 or 21.43% of the total liabilities was not recognized due to habitual practice thereby misstating the Leave Benefits Payable and Retained Earnings/(Deficit) accounts. (Audit Observation No. 3)
4. Terminal leave benefits of retired employees totaling ₱1,005,493.05 were recognized to Accounts Payable account instead of Terminal Leave Benefits Payable account due to non-familiarity of account resulting in the misstatement of affected accounts. (Audit Observation No. 4)
5. Accuracy of the year-end balance of Inventories totaling ₱991,442.60 could not be ascertained due to: a) misclassification of inventory accounts; b) non-provision of impairment losses; c) absence of subsidiary ledgers (SLs) and

supplies ledger cards (SLCs); d) difference between the balances reported in the financial statements and inventory reports, casting doubt on the balances of Inventories in the financial statements. (Audit Observation No. 5)

6. Impairment loss was not recognized on Other Receivables account with a balance of ₱332,777.86 as at December 31, 2019 due to lack of awareness of the accounting standard, thus, overstating the balance of said account. (Audit Observation No. 6)
7. Liability for auditing services amounting to ₱193,577.82 were not recognized to Accounts Payable account resulting in misstatements of Accounts Payable and Retained Earnings/(Deficit) accounts. (Audit Observation No. 7)

D. Summary of Other Significant Observations and Recommendations

The following are the other significant observations and recommended courses of action:

1. The non-revenue water (NRW) for CY 2019 was 14.44% higher than the 20% maximum acceptable level due to absence of strategies/measures in reducing water losses contrary to LWUA Memorandum Circular No. 004-10 resulting in total revenue loss of ₱8,879,860.00. (AO No. 10)

We recommended that Management should identify the immediate causes of the incurrence of high NRW and adopt effective strategies to manage water losses.

2. The Corporate Operating Budget (COB) projected a net loss of ₱2,594,382.65 for CY 2019 inconsistent with its mandate to earn income resulting in a substandard model/guide for its operations. (AO No. 9)

We recommended that Management should henceforth, consistently project a net income in the COB.

E. Summary of Total Suspensions, Disallowances and Charges

	Beginning Balance (January 1, 2019)	This period January 1 to December 31, 2019 (See Below)		Ending Balance (As of December 31, 2019)
		NS/ND/NC	NSSDC	
Notice of Suspension	₱0.00	₱438,330.61	₱37,920.00	₱400,410.61
Notice of Disallowance	3,554,043.71	₱37,920.00		₱3,591,963.71
Notice of Charge	-	-	-	₱0.00
Total	₱ 3,554,043.71	₱ 476,250.61	₱37,920.00	₱3,992,374.32

F. Status of Implementation of Prior Years' Unimplemented Audit Recommendations

Out of the twenty-two (22) audit recommendations in CYs 2007, 2015-2018, ten were fully implemented, nine were partially implemented and three were not implemented