

EXECUTIVE SUMMARY

A. Introduction

The Agency

The Hernani Water District (HWD) was created by virtue of Presidential Decree 198 through Sangguniang Bayan (SB) Resolution No. 35, series of 2008. The district was issued with Conditional Certificate of Conformance (CCC) No. 621 by the Local Water Utilities Administration (LWUA).

The HWD was categorized as Category “D” through the Certificate of Category issued on October 16, 2008 by LWUA.

The policy making body of HWD is composed of four (4) members of the Board of Directors (BOD), listed in Table 1.

Table 1. The Members of the BOD of HWD

Name	Designation	Sectors	Term of Office
Ms. Emeteria C. Decena	Chairperson	Professional	January 1, 2017 - December 31, 2022
Ms. Florentina B. Saliwan	Member	Education	January 1, 2019 - December 31, 2024
Ms. Lucena A. Antipolo	Member	Civic	January 1, 2015 - December 31, 2020
Ms. Agripina G. Yadao	Member	Women	January 1, 2017 - December 31, 2022

As of December 31, 2019, the HWD is managed by Ermelinda E. Go as the General Manager and assisted by five job order workers.

Audit Scope and Methodology:

The audit covered the financial operations of the HWD for the year then 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 actual expenditures are shown in Table 3.

Table 2. Comparative Financial Conditions and Comprehensive Income

Elements	CY 2019	CY 2018	Increase (Decrease)
Assets	₱13,998,251.78	₱ 13,525,216.83	₱ 473,034.95
Liabilities	14,103,119.63	14,175,687.80	(72,568.17)
Equity (Deficit)	104,867.85	650,470.97	545,603.12
Gross Income	644,152.28	790.65	643,361.63
Total Expenses	98,549.16	23,040.00	75,509.16
Net Income/(Net Loss)	₱ 545,603.12	(₱ 22,249.35)	₱ 567,852.47

Table 3. Comparative Actual and Budget Expenditures

Particulars	Budget	Actual	Increase (Decrease)
Personnel Services		-	-
Maintenance & Other Operating Expenses	571,300.00	98,549.16	472,750.84
Capital Outlay	-	1,507,686.46	1,507,686.46
Total	<u>571,300.00</u>	<u>1,606,235.62</u>	

C. State Auditor's Report on the Financial Statements

We rendered an adverse opinion on the fairness of the presentation of the financial statements of Hernani Water District because:

1. The accuracy and reliability of the year-end balance of Construction in Progress-Infrastructure Assets account of ₱8,840,856.53 are doubtful due to: a) non-reclassification of completed project costing ₱4,702,915.95 to Plant-UPIS account; and b) erroneous recognition of certain disbursements totaling ₱735,464.16; c) absence of Subsidiary Ledgers (SLs); and d) non-disclosure in the Notes to Financial Statements the details of the projects, thus, overstating the Construction in Progress-Infrastructure Assets account by ₱5,428,380.11 and Loans Payable account by P10,000.00, and understating various assets and expense accounts. (Audit Observation No. 1)
2. There was unaccounted difference of ₱4,037,848.93 between the balance presented in the financial statements of the Loans Payable – Domestic account

and Statement of Accounts (SOA) from Local Water Utilities Administration (LWUA) as at year-end due to non-reconciliation of the loan accounts, rendering the accuracy of the balance of the account doubtful. (Audit Observation No. 2)

3. Penalties and interests on past-due loans amounting to ₱19,684.96 and ₱2,700.94, respectively, were not recognized in the books due to non-reconciliation of loan accounts with LWUAs records, resulting in the misstatement of liabilities and Retained Earnings/(Deficit). (Audit Observation No. 3)
4. Supplies and Materials procured totaling ₱135,335.26 were erroneously recognized as Construction in Progress-Infrastructure Assets instead of Supplies and Materials for Water Systems Operations, due to non-familiarity of the Updated Revised Chart of Accounts for Government Corporations, thus overstating the Construction in Progress-Infrastructure Assets by ₱135,335.26 and understating the Materials for Water Systems Operations by the same amount. (Audit Observation No. 4)
5. The accuracy and reliability of the balance of Accounts Receivable account of ₱3,029.93 as at December 31, 2019 cannot be ascertained due to: a) difference of ₱3,676.77 between the balance presented in the SFPos and the certified List of Accounts Receivable; b) non-provision of impairment losses; and c) absence of subsidiary ledgers (SLs), rendering the balance of the account doubtful. (Audit Observation No. 5)

D. Summary of Other Significant Observations and Recommendations

This year's audit disclosed the following significant observation with the indicated recommendations; the details of which are discussed in Part II of the report:

1. There was an over remittance of withholding taxes totaling ₱2,137.15 as at December 31, 2019 due to non-monitoring of taxes withheld from suppliers, resulting in misstatement of Due to BIR account. (Audit Observation No. 13)

We recommended that the Acting Bookkeeper should:

- a. henceforth, closely monitor taxes withheld from suppliers and refrain from over remittance of taxes withheld; and
 - b. make representation with the BIR for the refund of the over remitted withholding taxes.
2. The Acting Bookkeeper, a job order worker, also acted as the Cashier due to lack of initiative to prepare plantilla of personnel as basis for hiring of qualified personnel. (Audit Observation No. 6)

We recommended that the Management should assign the task of handling cash accountabilities to an employee aside from the acting bookkeeper.

3. The HWD did not comply with the prompt financial reporting requirements due to non-submission of year-end financial statements on February 14, 2020 and delayed submission of the monthly FS for up to over two months resulting in the Audit Team's inability to conduct timely audit of the financial statements. (Audit Observation No. 12)

We recommended that Management should comply with the prompt financial reporting requirements of the government.

E. Summary of Total Audit Suspensions, Disallowances and Charges

Notice	Balance as of January 1, 2019	This period Jan. 1, 2019 to December 31, 2019		Balance as of December 31, 2019
		NS/ND/NC	NSSDC	
Suspension	₱ 173,818.16	0.00		₱ 173,818.16
Disallowance	0.00	0.00		0.00
Charge	0.00	0.00		0.00

F. Implementation of Prior Year's Audit Recommendations

Out of the 11 audit recommendations contained in the CYs 2013 to 2018 Annual Audit Reports, four were fully implemented, two were partially implemented and five were not implemented.