

EXECUTIVE SUMMARY

Introduction

The Zamboanga City Water District (ZCWD) was organized by virtue of Resolution No. 446 of the Zamboanga City Council on November 8, 1973 and amended by Resolution No. 77 dated March 6, 1974. Upon filing of the said Resolution with the Secretary of the Local Water Utilities Administration (LWUA) pursuant to Section 7 of Presidential Decree (PD) No. 198, ZCWD was deemed duly formed and existing and took over the operation of the Zamboanga Waterworks and Sewerage System on April 1, 1974.

It started its operation as a quasi-public corporation performing public service pursuant to the provisions of PD 198 and the Conditional Certificate of Conformance (CCC) No. 006 issued on May 16, 1974. In a Supreme Court decision promulgated on September 13, 1991 which obtained finality on March 12, 1992, water districts (WDs) are declared as Government Owned and Controlled Corporations (GOCC), thus covered by Civil Service Commission (CSC) and the Commission on Audit (COA) rules and regulations.

In compliance with the guidelines provided for in the Department of Budget and Management (DBM) approved Revised Local Water District Manual on Categorization, Recategorization, and Other Related Matters (LWD-MaCRO) under DBM Circular Letter No. 2011-10 dated November 18, 2011, the ZCWD was categorized as Category A WD per Certificate of Category issued by LWUA on April 2, 2012.

The Calendar Year (CY) 2019 plantilla of personnel of the ZCWD had 528 positions, 349 of which were filled.

Audit Objectives

The objectives of the audit are to (a) ascertain the fairness of presentation of the financial statements (FS); (b) ascertain the propriety of financial transactions and compliance with prescribed rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations. Performance audit was likewise conducted with the objective of informing management where improvement can be instituted in the field of revenues, expenditures and management of resources.

Audit Methodology

The Commission has been implementing risk-based audit in the conduct of its audit services. However, to meet the evolving developments in public governance and fund management, the results-based approach in audit was incorporated.

Scope of Audit

An audit was conducted on the accounts and operations of ZCWD for CY 2019. The audit consisted of review of operating procedures, evaluation of the WD's programs and projects, interview of concerned officers and employees, verification, reconciliation, confirmation, inspection, and analysis of accounts, and such other procedures considered necessary.

Financial Highlights

I. Comparative Financial Position

Accounts	2019	2018	Increase (Decrease)
Assets	P1,834,640,677.13	P1,900,307,871.68	(P65,667,194.55)
Liabilities	768,282,600.79	802,020,148.10	(33,737,547.31)
Capital	P1,066,358,076.34	P1,098,287,723.58	(P31,929,647.24)

II. Comparative Results of Operations

Particulars	2019	2018	Increase (Decrease)
Business and Service Income	P688,790,893.91	P723,426,450.64	(P34,635,556.73)
Operating Expenses	684,398,856.37	718,088,677.51	(33,689,821.14)
Income from Operations	4,392,037.54	5,337,773.13	(945,735.59)
Interest Charges and Financing Expenses	37,947,390.21	26,172,852.55	11,774,537.66
Net Income/(Loss)	(P33,555,352.67)	(P20,835,079.42)	P12,720,273.25

III. Comparative Data of Budget and Actual Expenditures

2019			
Particulars	Budget	Actual	Variance
Personnel Services (PS)	P 245,639,573.00	P 221,387,151.00	P 24,252,422.00
Maintenance and Other Operating Expenses (MOOE)	510,392,276.00	407,794,502.25	102,597,773.75
Capital Outlay	36,510,898.00	19,167,589.00	17,343,309.00
Debt Service	94,518,891.00	88,345,239.00	6,173,652.00
Contingent Fund	3,000,000.00	0.00	3,000,000.00
Total	P 890,061,638.00	P 736,694,481.25	P 153,367,156.75

2018			
Particulars	Budget	Actual	Variance
PS	P 250,002,946.00	P209,380,605.39	P 40,622,340.61
MOOE	714,248,537.00	454,173,083.38	260,075,453.62
Capital Outlay	529,390,019.00	78,113,619.00	451,276,400.00
Debt Service	84,572,014.00	80,304,655.00	4,267,359.00
Contingent Fund	1,700,000.00	-	1,700,000.00
Total	P1,579,913,516.00	P821,971,962.77	P 757,941,553.23

Independent Auditor's Opinion on the FS

We rendered a disclaimer of opinion on the fairness of presentation of the FS for CY 2019 for the following reasons:

1. The District did not maintain a complete set of journals and ledgers to support its financial transactions thereby casting doubt on the accuracy, regularity, propriety, validity and completeness of the financial reports. Further, there were unaccounted discrepancies in the beginning and ending balances in the net amount of P34,456.85 and P0.598 million, respectively, between the FS and subsidiary ledgers (SLs).
2. The District did not submit 46 disbursement vouchers totaling P33.018 million and 112 journal entry vouchers (JEVs), which is not in keeping with COA Circular No.

2009-006 dated September 15, 2009, and PD No. 1445. Due to the non-submission, validity and propriety of recorded transactions could not be ascertained.

3. Completed projects totaling P45.733 million were not reclassified to appropriate Property, Plant and Equipment (PPE) accounts due to discrepancies in the records and lack of supporting documents; thus, affecting the faithful representation of the Construction in Progress and related PPE and depreciation expense accounts in the FS. Further, costs incurred for revised projects to suit actual site condition and cancelled projects due to road widening were not reclassified to appropriate accounts and not properly disclosed in the Notes to FS.
4. The correctness and accuracy of the Cash in Bank and Cash Equivalents accounts totaling P119.323 million and P117.435 million, respectively, cannot be ascertained due to: 1) non-preparation of Bank Reconciliation Statements; and 2) unaccounted difference of balances per FS and per bank statements/passbook of special deposit accounts totaling P79.050 million.
5. The accuracy, completeness, and reliability of the reported year-end net book value of PPE accounts totaling P580.119 million could not be ascertained due to: 1) unaccounted differences between the balances reflected in the FS and Lapsing Schedule totaling P11.210 million, and with the result on Physical Count totalling P206.498 million; 2) non-maintenance of PPE Ledger Cards; 3) inclusion of items not clearly identified as to which PPE they relate and as to whether they meet the definition of PPE totaling P0.734 million; and 4) non-maintenance of updated Property Acknowledgement Receipts.
6. The accuracy, completeness and validity of Accounts Payable (A/P) account totaling P106.087 million cannot be ascertained due to: 1) non-submission of General Ledger (GL) and documents to validate claims; 2) unidentified A/P items amounting to P7.207 million; 3) non-maintenance of SL per creditor, 4) non-observance of cut-off date; and 5) inclusion of liabilities totaling P8.699 million which do not meet the description of A/P.
7. The accuracy, completeness and existence of Other Assets consisting of unserviceable property totaling P15.910 million cannot be ascertained due to: 1) discrepancy between the balance reflected in the FS and result of physical count in the amount of P17.187 million; 2) non-determination of the details of lumped balances and adjustments totaling P3.274 million; and 3) non-reclassification of unserviceable property to respective PPE or inventory accounts.
8. The accuracy and validity of Accounts Receivable (A/R) balance of P137.525 million cannot be ascertained due to: 1) non-disclosure of assignment of A/R; 2) non-recognition of direct payments of AR from concessionaires considered as unidentified deposits in the District books; 3) non-posting of entries in Financial Management Information System in the GL; and 4) unaccounted discrepancy between the balance reflected in the FS and in the Aging of A/R.
9. The reliability, accuracy and completeness of Advances to Officers and Employees account amounting to P1.049 million cannot be ascertained due to discrepancies between the GL and SLs, unrecorded transactions, negative balances in the SLs, travel expenses pertaining to CY 2018 recorded in CY 2019, and non-monitoring of cash advances.
10. The accuracy and completeness of Receivables-Disallowances/Charges balance of P1.204 million cannot be ascertained due to undetermined increase of the account

in the amount of P0.952 million, lack of breakdown/details and SLs, and lack of basis in recording settlement which is not in accordance with COA Circular No. 2009-006 and Annex A of COA Circular No. 2015-010.

Significant Audit Observations and Recommendations

In addition to the above-noted deficiencies, below are the significant audit observations and recommendations noted in the course of the audit:

1. The District has not fully adopted the Revised Chart of Accounts (RCA) for Government Corporations, which is not in accordance with COA Circular No. 2015-010 and LWUA Memorandum Circular (MC) No. 015-17.

We reiterated our recommendation that Management direct the Accounting and Financial Management Department to convert the account names and codes in accordance with the prescribed RCA to encourage uniformity and comparability with other WDs, to submit the JEV on the same, and to strictly comply with the guidelines in the conversion of accounts as provided in COA Circular No. 2015-010.

2. The District incurred net loss of P33.555 million as at year end which requires an evaluation of its revenue and expenditure streams to determine the necessary strategies and measures to improve its financial performance and condition. This is the second year that the District's operations resulted to a loss that has increased by P12.720, million as compared to CY 2018 net loss of P20.835 million.

We reiterated our recommendation that Management evaluate closely the movements or fluctuations of its revenue and expenditure streams, and re-evaluate the terms and conditions of the relevant contracts and agreements entered into or to be entered into to determine the most optimal strategy to improve the District's operations and enhance its financial performance and condition. We further reiterated that Management determine the root cause of its loss and address it accordingly.

3. The Non-Revenue Water (NRW) for the year exceeded by 28.61 per cent the maximum acceptable efficiency level of 30 per cent required under LWUA MC No. 011-18 dated June 1, 2018, thus the desired efficiency level in the operation of the District was not met, with the waste equivalent to 13.691 million cubic meters of water, and losing the opportunity of earning an estimated revenue of P253.,283 million.

We recommended that Management: a) Revisit the terms and conditions of the NRW Water Service Agreement considering that the NRW has not improved and the purpose for which the contract was entered into has not been achieved; and b) Intensify programs, projects and activities to attain the maximum acceptable efficiency level of 30 per cent, or lower.

4. The joint venture (JV) Company formed by the District and Manila Water Company, Inc. (MWCI) known as Zamboanga Water Company Inc. (ZWCI) failed to fix a target for NRW reduction which will cover costs of the same translating to loss of potential revenues amounting to P1.040 billion for the past three years.

We recommended that Management: a) Revisit the terms and conditions of the contract considering that the NRW has not yet improved and the purpose for which the contract was entered into has not been achieved; b) In case of default of ZWCI to attain the said targets, pursue the imposition of liquidated damages from ZWCI to

mitigate the potential losses; and c) Formulate strategies and look into other possible action/s to take to avoid incurring further losses.

5. The Bulk Water Purchase Agreement (BWPA) entered into by the ZCWD and Primewater Infrastructure Corporation (PIC) failed to meet its intended goal to address the shortage on current demand of water due to the continuous failure of the latter to deliver the required quantity of water as provided under the agreement.

We recommended that Management: a) Impose the appropriate and corresponding penalties for the continuous failure of the PIC to comply with its obligations under the BWPA, particularly for the period covered December 21, 2016 to July 2017 which remained unpaid/unsettled; and b) Meet and sit down with the authorized officials of PIC to thoroughly assess and evaluate the existing BWPA and to identify the root cause of the failure to deliver the required volume of water and to find solutions and/or remedies to address the same.

6. Water samples of the potable water supplied by PIC to ZCWD did not pass the Microbiological Test conducted by Waterlab Water Testing Laboratory, Inc., a Department of Health-accredited laboratory, in contravention to Article X of the BWPA thereby putting at risk the consumers who expect safe and potable water from ZCWD.

We recommended that Management: a) Ascertain the reason of the failed water sample results, particularly the delay in the sending of water samples and if the same can be directly attributed to PIC; b) Impose, if applicable, the appropriate and corresponding penalties for the failure of PIC to deliver potable water for said period at the desired quality as provided for under Article X of the BWPA; and c) Revisit the provisions of Article X of the BWPA and come up with clear and detailed guidelines and/or protocol to address the water sample testing of potable water supplied by PIC.

Status of Suspensions, Disallowances and Charges

The reported audit suspensions, disallowances and charges of the ZCWD as at December 31, 2019 were as follows:

Particulars	Beginning Balance (As of January 1, 2019)	This Period		Ending Balance (As of December 31, 2019)
		NS/ND/NC	NSSDC	
Notice of Suspension	P 0.00	P 0.00	P 0.00	P 0.00
Notice of Disallowance	16,640,558.48	0.00	133,583.50	16,506,974.98
Notice of Charge	0.00	0.00	0.00	0.00
Total	P16,640,558.48	P 0.00	P 133,583.50	P 16,506,974.98

Status of Implementation of Prior Years' Audit Recommendations

Of the 54 audit recommendations contained in the prior years' Annual Audit Reports, 13 were implemented and 41 were unimplemented.