

EXECUTIVE SUMMARY

A. Introduction

1. The Lianga Water District (LIWAD) was created by virtue of the Municipal Council Resolution No. 17 on July, 1979. It was subsequently issued Conditional Certificate of Conformance No. 104 by the Local Water Utilities Administration (LWUA) on December 4, 1979. Upon its creation, the District acquired ownership and management of two water systems in accordance with Presidential Decree (PD) No. 198, as amended. It also operated two reservoirs located at Brgys. Diatagon and Baribian of the Municipality of Lianga.
2. By virtue of Section 5, Chapter II – Purpose and Formation of PD No. 198, the LIWAD’s mandates are: (a) acquiring, installing, improving, maintaining and operating water supply and distribution systems for domestic, industrial, municipal and agricultural uses for residents and lands within the boundaries of such district; (b) providing, maintaining and operating waste water collection, treatment and disposal facilities, and; (c) conducting such other functions and operations incidental to water resource development, utilization and disposal within such district, as are necessary or incident to said purpose.
3. The audit was conducted in accordance with applicable legal and regulatory requirements and the International Standards of Supreme Audit Institutions.
4. The audit covered the accounts and operations of the District for the year 2018 and was aimed at ascertaining the propriety of financial transactions, management’s compliance to prescribed rules and regulations and the fairness of the presentation of the financial statements.

B. Operational Highlights

5. Major accomplishments on Key Programs and Projects for CY 2019 are as follows:

Key Program/Project	Period Accomplished	Project Cost
1. Relocation of Pumping/Power House	May 3, 2019	49,706.66
2. Drinking & Washing Station Facility (GAD-Project-CAPEX)	August 27, 2019	42,931.50
3. Parallel line from Camangahan Collection Box to DENR Lianga	November 4, 2019	4,101,822.74
4. Drinking & Washing Station Facility (GAD-Project-CAPEX)	November 13, 2019	42,476.80
5. Drinking & Washing Station Facility (GAD-Project-CAPEX)	December 31, 2019	41,018.80

Key Program/Project	Period Accomplished	Project Cost
6. Reduction of Non-Revenue Water (NRW)	December 31, 2019	219,653.85
7. Expansion & Rehabilitation of Distribution Line	December 31, 2019	49,574.00
TOTAL		4,547,184.35

C. Financial Highlights

6. Comparative Financial Position and Results of Operations

Particulars	2019	2018	Increase/ (Decrease)
Assets	37,106,202.26	34,827,214.90	2,278,987.36
Liabilities	53,605,995.38	51,426,281.22	2,179,714.16
Total Equity	(16,499,793.12)	(16,599,066.32)	99,273.20
Income	23,740,656.99	21,631,293.06	2,109,363.93
Expenses	19,466,463.64	17,240,494.02	2,225,969.62
Net Income	4,274,193.35	4,390,799.04	(116,605.69)

7. Comparison of Budget and Actual Expenditures

Particulars	Budget	Actual Expenditure	Unexpended
Personal Services	11,503,337.65	9,382,038.84	2,121,298.81
MOOE	9,922,645.70	7,391,143.16	2,531,502.54
Financial Expenses	20,000.00	1,288.55	18,711.45
Capital Outlay	11,381,241.14	4,907,613.55	6,473,627.59

D. Audit Opinion

8. The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Lianga Water District for Calendar Year 2019 due to the following:

- i. The accuracy of the year-end Cash in Bank accounts balance of ₱2,189,542.73 was not certain due to: (1) the adjusted bank balances per Bank Reconciliation Statements (BRS) did not reconcile with the balances presented in the Financial Statement (FS); and (2) misclassified account, thus, affected the fair presentation of the accounts in the financial statements.
- ii. The accuracy and validity of the reported balance of Accounts Receivable (AR) totaling ₱4,069,274.08 were doubtful due to the discrepancy of ₱1,214,796.71 between the balance per books and the balance appearing in the Aging Schedule and the non-recognition of Impairment Loss.

- iii. The existence and accuracy of the balances of the Inventory Accounts amounting to ₱1,693,889.57 could not be ascertained due to unreconciled Report of Physical Count of Inventories (RPCI) and accounting records and the absence of Subsidiary Ledger (SL).
- iv. The existence and accuracy of the Property, Plant and Equipment (PPE) account were not ascertained due to variances between its account balance of ₱28,922,112.00 appearing in the financial statement, the non-reconciliation of the Report of Physical Count of Property, Plant and Equipment (RPCPPE) and the absence of Subsidiary Ledgers nor any schedules to support the balances in the General Ledgers.
- v. The District did not recognize the Leave Benefits Payable account in the books for the unused portion of the employees earned leave credits of ₱4,646,488.62 as of December 31, 2019 contrary to International Accounting Standards (IAS) 19 and Section 1 of Republic Act (RA) No. 10154, thus, affected the fair presentation of the Financial Statements.
- vi. The current portion of the ₱48,081,270.69 Loans Payable in the total amount of ₱3,874,008.00 and the Other Deferred Credits of ₱1,040,769.34 were not presented in the Statement of Financial Position as prescribed in the International Accounting Standards (IAS 1). The same was also not disclosed in the Notes to Financial Statements, thus, affecting the fair presentation of the Financial Statements.

E. Summary of Significant Observations and Recommendations

- 9. For the above-mentioned audit observations, which have caused the issuance of a qualified opinion, we recommended the following for Management to:
 - i. a. Prepare Journal Entry Vouchers (JEV) to take up in the book of accounts the unrecorded reconciling items for adjustments. Ensure that these entries are properly and completely documented.
 - b. Prepare a JEV to correct the misclassified account.
 - ii. a. Require the personnel in-charge from the Accounting and Billing and Commercial Sections to conduct immediate reconciliation of their records and ensure the periodic reconciliation of accounts. Any discrepancy noted must be investigated and cleared before any adjustments are effected.
 - b. Instruct the Accounting Processor to provide for impairment losses after the end of each reporting period.

- iii. a. Direct the personnel of the Accounting and Property Units to coordinate and investigate the variances in the inventory accounts and to ensure the reconciliation of their records every semester.
- b. Direct the Accounting Unit to prepare the Subsidiary Ledgers and reconcile the same with the General Ledgers.
- iv. a. Direct the personnel of the Accounting and Property Units to coordinate and investigate the variances in the inventory accounts and to ensure the yearly reconciliation of their records.
- b. Direct the Accounting Unit to prepare the Subsidiary Ledgers and schedules and reconcile the same with the General Ledgers on a regular basis.
- v. a. Instruct the bookkeeper to set-up the liability account for the monetary value of the earned leave credits/benefits;
- b. Set up a catch-up plan for the fund needed to cover the ₱4,646,488.62 monetary equivalent for the accumulated earned leave credits;
- c. Henceforth, provide an allocation in the Corporate Operating Budget for the year end leave credits;
- d. Require the HRMO in charge to submit to the accounting unit a report showing the actual earned leave balances of all employees as at year-end to facilitate the recognition of the monetary value of the earned leave credits/benefits.
- vi. a. Reclassify in the Statement of Financial Position the current portion of ₱3,874,008.00 from the total Loans Payable with the LWUA as current liability as well as the Other Deferred Credits account of ₱1,040,769.
- b. Reclassify the Customers' Deposits Payable of ₱117,408.00 and the Other Payables account of ₱493,691 as Non-current Liabilities in the Statement of Financial Position.
- c. Disclose in the Notes to Financial Statements all relevant and pertinent information which cannot be found in each account appearing the Statement of Financial Position.

10. The other significant audit observations and recommendations are as follows:

- i. Not all insurable Property, Plant and Equipment of the District amounting to ₱28,890,612.00 were covered by the general insurance of the Government Service Insurance System (GSIS), contrary to the pertinent provisions of

Republic Act (RA) No. 656, thus, exposing the said properties of the government to non-recovery in case of loss or damage.

We recommended for Management to prepare a list of all insurable properties of the District and coordinate with the GSIS for the assessment of the properties and apply for property insurance.

- ii. The internal control system on the disbursement of fund was weak contrary to the provision of Section 124 of Presidential Decree No. 1445 and National Guidelines on Internal Control Systems (NGICS) per DBM Circular Letter 2008-8, hence, claims totaling ₱8,142,448.81 for Calendar Year 2019 were paid in the absence of complete and proper supporting documents.

We recommended that Management shall:

1. Install control measure that will ensure that prior to approval and payment, all expenses are supported with complete and proper supporting documents; and
 2. Submit the necessary documents to support the respective expenses referred in Annex A to preclude issuance of Notice of Suspension.
- iii. The District did not prepare the Calendar Year 2019 GAD Accomplishment Report (GAD AR) and its supporting documents as required in PCW-NEDA-DBM Joint Memorandum Circular No. 2012-01.

We recommended for Management to require the GFPS to ensure the preparation and submission of the GAD AR together with the (1) brief summary of the reported program or project; (2) copies of reported policy issuances; (3) results of HGDG tests; and (4) actions taken by the District on the COA audit findings and recommendations within five working days from the end of January of preceding year as required in the above-quoted regulations.

F. Summary of Suspensions, Disallowances, and Charges

11. There was no Notices of Suspension, Disallowance and Charge issued during the year. The audit disallowance beginning balance of ₱30,000.00 was settled during the year leaving a zero balance as of year-end.

G. Status of Implementation of Prior Years' Audit Recommendations

12. Of the 38 audit recommendations embodied in the CY 2018 and prior year's Annual Audit Reports, 14 were fully implemented, 20 were partially implemented and four were not implemented.