EXECUTIVE SUMMARY

A. Introduction

1. The Lianga Water District (LIWAD) was created by virtue of the Municipal Council Resolution No. 17 dated March 30, 1979. It was subsequently issued a Conditional Certificate of Conformance No. 104 by the Local Water Utilities Administration 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 Presidential Decree No. 198, the LIWAD’s mandate 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 Philippine Public Sector Standards on Auditing. Those standards require that we plan and perform the audit to obtain a reasonable basis for our conclusions.

4. The audit covered the accounts and operations of the District for the year 2016 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. Financial Highlights

5. Comparative Financial Position and Results of Operations

<table>
<thead>
<tr>
<th>Particulars</th>
<th>CY 2016</th>
<th>CY 2015</th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>34,569,529.57</td>
<td>33,609,999.09</td>
<td>959,530.48</td>
</tr>
<tr>
<td>Liabilities</td>
<td>39,770,984.92</td>
<td>42,456,325.11</td>
<td>(2,685,340.19)</td>
</tr>
<tr>
<td>Government Equity</td>
<td>(5,201,455.35)</td>
<td>(8,846,326.02)</td>
<td>3,644,870.67</td>
</tr>
<tr>
<td>Income</td>
<td>16,444,426.64</td>
<td>13,904,181.41</td>
<td>2,540,245.23</td>
</tr>
<tr>
<td>Expenses</td>
<td>13,130,419.30</td>
<td>12,545,088.45</td>
<td>585,330.85</td>
</tr>
<tr>
<td>Net Income</td>
<td>3,314,007.34</td>
<td>1,359,092.96</td>
<td>1,954,914.38</td>
</tr>
</tbody>
</table>
C. Audit Opinion

6. The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of the Lianga Water District for CY 2016 because Subsidiary Ledgers (SL) of the Loans Payable with the Local Water Utilities Administration (LWUA) with total balance of P8,183,185.28 were not updated and reconciled with the General Ledger (GL) account which showed a balance of P38,609,899.38 resulting in an unreconciled difference of P30,426,714.10 while confirmation with the LWUA revealed a balance of P26,367,830.01 or a variance of P12,242,069.37 with the GL balance, thus casting doubt on the reliability of the reported balance for Loans Payable in the Statement of Financial Position.

D. Summary of Significant Observations and Recommendations

7. For the above-mentioned audit observations, which have caused the issuance of an adverse opinion, we recommended the following:

   i. Instruct the Accounting Section to immediately reconcile the variances between the General Ledger and the Subsidiary Ledgers and between the balance per LWUA and the General Ledger.

   ii. Conduct a monthly reconciliation of the totals of the Subsidiary Ledger balances with their respective control account and periodically prepare schedules to support the corresponding General Ledger account.

   iii. Require the Accounting Section to classify the loans into current and non-current accounts for fair presentation in the financial statements.

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

   i. The District procured security services without the benefit of public bidding in violation of Section 10 of R.A. No. 9184 and GPPB Resolution No. 24-2007 thus, defeated the principle of transparency and competitiveness of government procurement.

      We recommended that Management shall (a) Ensure the conduct of public bidding in compliance with RA9184 in order to promote transparency and competitiveness in the procurement process and obtain the lowest cost for the government. (b) See to it that all contracts entered into contain important and pertinent terms and conditions that protect the interest of the District.

   ii. Payment of per diems during travels of the Board of Directors, General Manager and certain employee were in excess by P44,485.50 due to allowing
the claim of P1,500.00 per diem, contrary to Section 4 of Executive Order No. 298 thus, resulting to illegal disbursement of public funds.

We recommended that Management shall (a) Discontinue the payment of P1,500.00 per diem and strictly observe the payment of P 800.00 regardless of rank and destination as provided in Executive Order No. 298. (b) Require all personnel found liable to refund the amounts of P44,485.50 (CY2015) and P20,710.00 (CY2016).

iii. The District allowed the withdrawal and use of 4,000 pcs. of Official Receipts (ORs) by non-bonded personnel to perform collection function contrary to Section 101 of Presidential Decree No. 1445 and Section 4.1 of Treasury Circular No. 02 – 2009

We recommended that Management shall (a) Stop the practice of allowing the issuance of ORs to personnel who are not duly bonded as required in PD 1445 and Treasury Circular 02-009 and to use the same to collect payments from concessioners. (b) In the event that the duly bonded collectors are on leave or on official travel, designate alternate collectors who use the ORs withdrawn by the former and with proper authority and turn-over.

iv. Total claims of P15,429,259.41 charged against the corporate operating budget for CY 2016 were not supported with Budget Utilization Request (BUR) contrary to COA Circular No 2006-004 dated January 31, 2006. As a result, the necessity and legality of the said charges to the budget were not warranted and the prescribed Registry of Budget and Utilization (RBU) was not prepared for monitoring purpose which also resulted to overcharging or incurrence of negative balances of the nine budget accounts.

We recommended that Management shall (a) Immediately instruct all concerned personnel for the preparation and use of Budget Utilization Request in the form prescribed in COA Circular No. 2006-004 dated January 31, 2016. (b) Instruct Heads of the Requesting Unit to certify the BURs on the necessity and legality of the charges against the budget. (c) Require the Head of the Budget Unit to certify the availability of budget and to prepare and maintain the Registry of Budget and Utilization (RBU). (d) Instruct the accounting unit not to process any claim against the corporate funds in the absence of properly accomplished Budget Utilization Request.

v. The District failed to withhold the correct amount of final VAT and Income Tax on Government Money Payments due to erroneous application of tax rates in violation of Section 22 of Revenue Regulation No. 04-2007 and Revenue Memorandum Circular No. 23-2007 thus, resulted in understatement of Due to BIR account amounting to P9,631.47.
We recommended that Management shall ensure strict compliance to the requirements of RR No. 04-2007 and RMC 23-2007 to avoid BIR sanctions and penalties.

vi. Disbursement Vouchers for 23 transactions were paid without complete supporting documentation indicating weak internal control in the disbursement process thereby casting doubt on the validity and correctness of the claims totaling to P236,546.43 in violation to Sections 168 of the GAAM Volume 1 and 124 of Presidential Decree (PD) 1445.

We recommended that Management shall (a) Direct the personnel in charge to submit the following lacking documents. (b) Instruct the Accountant and other personnel concerned to ensure that all claims are properly and completely supported with documents to establish the correctness of the claims pursuant to Section 4(6) of PD 1445. (c) Ensures that measures to strengthen the internal control are adopted or in place to ensure that no claims shall be paid without complete supporting documents. (d) Henceforth, all payment in the absence of complete supporting documents shall be suspended in audit.

vii. The payment of registration fee amounting to P35,000.00 for seven participants in the 37th National Convention of Philippine Association of Water Districts, Inc. (PAWD) is not in conformity with Section 2.0 of DBM NBC No. 486 dated March 26, 2003, hence, resulting in excess payment of P17,000.00.

We recommended that Management shall (a) Discontinue the payment in excess of the allowable amount for registration fee for the participation of government officials and employees in conventions, seminars, conferences, symposia and similar non-training gatherings sponsored by non-government organizations or private institutions. (b) Management shall require the participants to refund of the excess payments. (c) Henceforth, Management should also ensure strict compliance with the provisions of NBC 486 in the paying registration fees of officials and employees in conventions, seminars, and other similar trainings or conferences.

viii. All disbursement vouchers and their supporting documents were not stamped “PAID” and dated contrary to COA Circular No. 92-389 dated November 3, 1992, thus, double payment of the same transactions could not be precluded.

We recommended that Management shall (a) Instruct the cashier to stamp “PAID” all disbursement vouchers and it’s supporting documents after the release of check. (b) Henceforth, Management shall ensure that the Cashier complies the requirement of stamping “PAID” and dated all released disbursement vouchers and its supporting.
ix. The actual results presented in the GAD Accomplishment Report for Calendar Year 2016 were not supported with reports/documents as required in Section 5.2 of DBM-NEDA-NCRFW Joint Circular No. 2004-1, thus resulted in difficulty in validating the actual results indicated.

We recommended that Management shall direct the GAD Focal Persons to submit the reports/documents as required in Section 5 of DBM-NEDA-NCRFW Joint Circular No. 2004-1.

x. District’s Non-Revenue Water (NRW) loss was reduced from 58 percent in CY 2014 to 28 percent in CY 2015, but the same is still 8 percent higher than the 20 percent NRW set by LWUA under Resolution No. 444 series of 2009.

We recommended that Management continue to (a) Intensify its field activities which are focused on NRW reduction such as – inspection of transmission and distribution lines, repairs of busted/defective transmission and distribution lines and institute rehabilitation project transmission and distribution lines. (b) Device a strategy that would address overflowing reservoir at night time to minimize NRW loss and bring the same to tolerable level.

E. Summary of total Suspensions, Disallowances, and Charges

9. During Calendar Year 2016, Notice of Disallowance involving the amount of P80,000.00 was issued. Also, during the year, settlement amounting to P18,603.32 were made on previous disallowances. The amount of P80,000.00 remained unsettled as of December 31, 2016.

F. Status of Implementation of prior years

10. Per Auditor’s validation, of the 81 audit recommendations embodied in the CY 2015 and previous year’s Annual Audit Reports, 29 were fully implemented, 33 were partially implemented and 19 were not yet implemented.