EXECUTIVE SUMMARY

A. Introduction

The Local Water Utilities Administration (LWUA) was created under Presidential Decree No. 198 dated May 25, 1973 (as amended by Presidential Decree Nos. 768 and 1479), otherwise known as the Provincial Water Utilities Act of 1973 as a specialized lending institution for the promotion, financing, and overseeing of the development of water supply systems in provincial cities and municipalities outside of Metropolitan Manila. This law authorized LWUA to service major provincial urban areas with at least 20,000 populations through the water districts. Part of the mandate is to provide a composite of financial, technical and institutional development and regulatory services to water utilities. In 1987, LWUA's mission and area of responsibility were expanded to include provision of Level II service (communal faucet system) through the Rural Waterworks and Sanitation Associations (RWSAs) in areas where Level III systems (individual household connection) were not feasible. Among the major functions of LWUA are the following:

a. Prescribe minimum standards and regulations in order to assure acceptable standards of construction materials and supplies, maintenance, operation, personnel training, accounting and fiscal practices for local water utilities;

b. Furnish technical assistance for personnel training program for local water utilities;

c. Monitor and evaluate local water standards; and

d. Effect systems integration, joint investment and operations, district annexation and de-annexation whenever economically warranted.

B. Scope and Objectives of Audit

Our audit covered the examination, on test basis, of the accounts and transactions of LWUA for CY 2020 and 2019 in accordance with International Standards of Supreme Audit Institutions (ISSAI) to enable us to express an opinion on the fairness of presentation of LWUA's Financial Statements (FS) for the years ended December 31, 2020 and 2019. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations as well as adherence to prescribed policies and procedures.

C. Financial Highlights

I. Comparative Financial Position

	2020	2019	Increase (Decrease)
Total Assets	15,479,580,117	14,990,728,632	488,851,485
Total Liabilities	5,248,544,268	4,638,224,576	610,319,692
Total Equity	10,231,035,849	10,352,504,056	(121,468,207)

II. Comparative Results of Operations

	2020	2019	Increase (Decrease)
Total Revenue	521,861,494	533,195,927	(11,334,433)
Total Expenses	(485,128,055)	(612,268,467)	(127,140,412)
Surplus/(Deficit) from Operations	36,733,439	(79,072,540)	115,805,979
Gains	72,567,334	188,894,083	(116,326,749)
Loss	(70,029,454)	(64,237,921)	(5,791,533)
Surplus/(Deficit) before Tax	39,271,319	45,583,622	(6,312,303)
Income Tax	(27,032,499)	(13,544,325)	13,488,174
Surplus/(Deficit) after Tax	12,238,820	32,039,297	(19,797,370)
Net Assistance/Subsidy from National Government	(231,313,405)	715,504,800	(946,818,205)
Net Surplus/(Deficit)	(219,074,585)	747,544,097	(966,618,682)

III. Budget and Actual Expenditures

The total corporate operating budget and the corresponding expenditures of LWUA are broken down as follows:

	2020	
	Budget	**Actual Expenditures**
Personnel Services	503,627,051	281,021,915
Maintenance and Other Operating Expenses	246,576,785	130,010,798
Financial Expenses	489,927,363	433,433,872
Capital Expenditures	1,758,075,000	1,134,907,505
Total	**2,998,206,199**	**1,979,374,090**

D. Independent Auditor's Opinion

The Auditor rendered an adverse opinion on the fairness of the presentation of the financial statements for CYs 2020 and 2019 due to the following:

1. The faithful representation of the following accounts was not established contrary to the provisions of IPSAS 1 and the Conceptual Framework for GPFR by Public Sector Entities:

   a. Loans Receivable – Water Districts (WDs) account of P9.970 billion as of December 31, 2020 due to: (i) variance of P413.226 million between the General Ledger and Subsidiary Ledger balances; (ii) negative balances totaling P13.803 million on 79 loan accounts from 54 WDs reported in the Subsidiary Ledger; and (iii) variances of P228.573 million on the confirmed loan balances from 205 WDs, of which, loan balances from 24 WDs amounting to P234.485 million were not included in the schedule of loans receivables submitted by Management.

b. Miscellaneous Receivables - Water Districts Presidential Social Fund (MRWD-PSF) account totaling P638.513 million as of December 31, 2020 due to: (i) unidentified negative balances amounting to P182.341 million included in the list of Water Districts under the PSF account; (ii) 38 WD accounts with executed Financial Assistance Contracts (FACs) with loan balances of P196.753 million remained in the MRWD -PSF account; and (iii) nine WDs account with balances totaling P60.357 million were taken up in the MRWD-PSF account but were not among the lists of WDs with PSF releases .

c. Receivable from Water Districts on Open Account Bill (OAB) account of P379.861 million as of December 31, 2020 due to: (i) RWD-OAB from four Water Districts (WDs) totaling P316.233 million were under dispute thus its collectability/recoverability remain doubtful. No allowance for impairment loss was recognized in the books; (ii) unreconciled variance totaling P39.099 million between the GL balance of P379.861 million and SL balance of P418.960 million; and (iii) negative balances of 35 WDs with OAB totaling P5.358 million.

d. Property Plant and Equipment (PPE) account amounting to P689.051 million as of December 31, 2020 due to: (i) unreconciled variance of P94.805 million between the Accounting records and the Report of the Property Control Division (PCD); (ii) inclusion of 10 unaccounted properties amounting to P305,206.00 and two lost properties amounting to P1.009 million or a total amount of P1.314 million; and (iii) semi-expendable properties amounting to P384,456.52 still form part of the PPE account.

2. The Equity account was overstated by P4.120 billion due to the recognition of all subsidies received from the National Government (NG) and other government agencies as Donated Capital contrary to Item 1(a) of the Special Provisions of the General Appropriation Act (GAA), paragraphs 7 and 27 of IPSAS 1, Section 67 of PD 198, and Section 3 (4) of PD 1445.

3. The balance of Other Deferred Credits account of P1.064 billion was overstated and the interest and service income was understated by undetermined amounts due to the inclusion of earned interest income and service income from prior periods, contrary to paragraph 7 of IPSAS 1.

For the above-mentioned observations, which caused the issuance of adverse opinion, we recommended, that Management:

1.a.1 Require the Accounting Department (AD) to coordinate with the Loans Portfolio Management Department (LPMD) and reconcile the variances of P413.226 million noted between the GL and SL balances;

1.a.2 Require the LPMD to analyze the loan accounts with negative balances totaling P13.803 million, reconcile the balances with the concerned Water Districts (WDs) and make the necessary adjustments, where appropriate;

1.a.3 For loan balances with variances per confirmation, require the LPMD to communicate with the concerned WDs and reconcile the variances noted;

1.a.4 Require the LPMD to review the loans of WDs with confirmed balances but not included in the schedule of loans receivables.

1.b.1 Require the Financial Service Department to identify and reconcile the negative balances of P182.341 million and make the necessary adjustment to reflect the correct balance of the account in the books;

1.b.2 Reclassify the 38 WDs with executed FACs with outstanding loan balances totalling P196.753 million from MRWD-PSF account to Long-Term-Loans Receivable-Water Districts (LT-LR-WD) account; and

1.b.3 Identify the proper classification of the nine WDs accounts and effect the necessary adjusting entries.

1.c.1 Require Management to exhaust all legal remedies to demand settlement of the disputed claims from the concerned WDs amounting to P379.861 million;

1.c.2 Require the AD to coordinate with the LPMD for the reconciliation of the variance between the GL and SL balances amounting to P39.099 million; and

1.c.3 Analyze the accounts with negative balances of P5.358 million and make the necessary adjustments, where appropriate.

1.d.1 Require the AD to coordinate with the PCD to reconcile the P94.805 million discrepancy, and make the necessary adjustments in the books to reflect the correct balances of the account;

1.d.2 Provide reasonable allowance for impairment losses for the unaccounted and lost properties, and set-up account receivable from the accountable officers amounting to P1.314 million; and

1.d.3 Reclassify the semi-expendable properties amounting to P384,456.52 to its proper accounts and effect the necessary adjusting entries in accordance with COA Circular No. 2016-006

2. Require the Accounting Department to take up adjusting entries to close Donated Capital account and recognize Trust Liability and other related accounts as warranted to comply with IPSAS 1, the Special Provisions of the General Appropriations Act, PD 198 and PD 1445.

3. Require the Financial Service Department to:

3.a Account for the remaining interest income earned that was recognized as Other Deferred Credits and reclassify the same to Retained Earnings account with proper disclosure in the Notes to Financial Statements;

3.b Derecognize the deferred service income from Feasibility Study and Construction Supervision that was already earned amounting to P3.999 million; and

3.c Apply the accrual basis of accounting in the recognition of Income earned and adjust the Other Deferred Credits account for the interest and service income already earned in compliance with IPSAS 1.

E. Other Significant Audit Observations and Recommendations

1. In addition to the above audit observations which we considered in the rendition of an adverse opinion, the following are the other significant audit observations and corresponding recommendations, the details of which are presented in Part II of this Report:

   The slow implementation of the identified NDRRM Funded Projects for the Yolanda affected areas and Zamboanga City and Marawi City siege defeats the intents and purposes of the Disaster Risk Reduction and Management Program, contrary to Section 3 (i), Rule 1 of the Implementing Rules and Regulations of RA No. 10121, otherwise known as the Philippine Disaster Risk Reduction and Management Act of 2010.

   Recommendation:

   Establish plans and programs to prioritize the NDRRM Projects and fast track its implementation in accordance with the Philippine Disaster Risk Reduction and Management Act of 2010.

2. No separate bank account and ledger for each NDRRM/Calamity Fund received was maintained by LWUA, contrary to the provisions of Section 3 and 4 of PD 1445 and Section 1 of COA Circular No. 2014-002.

   Recommendation:

   Maintain separate bank accounts and ledgers for each NDRRM fund received, to ensure proper accounting and monitoring of all funds, and systematic recording of fund distribution pursuant to Section 3 and 4 of PD 1445 and COA Circular No. 2014-002.

F. Status of Suspensions, Disallowances and Charges

Based on the Statement of Audit Suspensions, Disallowances and Charges (SASDC) issued as of December 31, 2020, the unsettled audit disallowances and audit suspensions amounted to P1.470 billion and P1.378 billion, respectively. There were no audit charges as at year-end. Details are shown in Part II of the Report.

G. Status of Implementation of Prior Year's Audit Recommendations

Of the 88 prior year's audit recommendations, 32 were fully implemented, 37 were partially implemented and 19 were not implemented. Audit recommendations which are partially and not implemented were reiterated in part II of the Report. Details are presented in Part III of the Report.