Republic of the Philippines

**COMMISSION ON AUDIT**

Regional Office No. 10

J.V. Seriña Street, Carmen, Cagayan de Oro City

**OFFICE OF THE REGIONAL DIRECTOR**

February 23, 2018

**Ms. ELSA P. PANORIL**

Chairperson of the Board of Directors

Bacolod Water District

Bacolod, Lanao del Norte

**Engr. NOEL L. RESABAL**

General Manager

Bacolod Water District

Bacolod, Lanao de lNorte

Madam, Sir:

We are pleased to transmit the Annual Audit Report on the audit of **Bacolod Water District (BWD)**, Bacolod, Lanao del Norte as of December 31, 2017, pursuant to Section 2, Article IX-D of the Philippine Constitution and pertinent provisions of Section 43 of Presidential Decree No. 1445 otherwise known as the Government Auditing Code of the Philippines.

The audit was conducted to (a) ascertain the degree of reliance that may be placed on management’s assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior years’ audit recommendations.

The audit report consists of Part I - Audited Financial Statements, Part II-Observations and Recommendations, and Part III- Status of Implementation of Prior Year’s Audit Recommendations, which were discussed with the officials and staff concerned.

We conducted our audit in accordance with Philippine Public Sector Standards on Auditing and we believe these standards provided a reasonable basis for the audit results.

The Auditor rendered a Qualified Opinion on the fairness of presentation of the financial statements due to the non-submission of reports, especially the report on physical count of PPE and Inventory with net book value of P26,569,828.52 and P730,412.96 respectively, precluding the auditor from conducting timely audit and from ascertaining the validity, existence and accuracy of reported balances as of year-end.

The details of this significant finding and observation as well as other findings are discussed in Part II – Audit Observations and Recommendations of this report.

We request that a status report, by accomplishing the attached Agency Action Plan and Status of Implementation form, on the actions taken on the audit recommendations be submitted within 60 days from receipt of this report, pursuant to Section 88 of the General Provisions of the General Appropriations Act FY 2017.

We appreciate the invaluable support and cooperation extended by the officials and staff of that Agency to the Audit Team during the audit engagement.

Very truly yours,



**CELSO L. VOCAL**

Director IV

Regional Director

*Copy furnished*

*The President of the Philippines*

*Malacañang Palace, Manila*

*The Vice-President of the Philippines*

*Coconut Palace, F. Maria Guerrero St.*

*CCP Complex, Pasay City*

*The President of the Senate*

*Senate of the Philippines*

*Roxas Boulevard, Pasay City*

*The Chairman-Senate Finance Committee*

*Senate of the Philippines*

*Roxas Boulevard, Pasay City*

*The Speaker of the House of Representatives*

*HOR Complex, Constitutional Hills, Quezon City*

*The Chairman-Appropriations Committee*

*House of Representatives*

*HOR Complex, Constitutional Hills, Quezon City*

*The Secretary of the Budget and Management*

*Department of Budget and Management*

*G. Solano St., San Miguel, Manila*

*The Administrator*

*Local Water Utilities Administration (LWUA)*

*MWSS-LWUA Complex, Katipunan Avenue*

*Balara, Quezon City*

*The Director*

*National Library of the Philippines*

*T.M. Kalaw, Ermita, Manila*

*The Chief of Office*

*UP Law Center, UP, Diliman, Quezon City*

*File*

Republic of the Philippines

**COMMISSION ON AUDIT**

Provincial Satellite Auditing Office

Iligan City

R10-05, Water Districts

**BACOLOD WATER DISTRICT**

For Calendar Year 2017

Agency Action Plan and Status of Implementation

(AAPSI)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Ref. | Audit Observation | Audit Recommendation(s) | Agency Action Plan | Status of Implementation | Reason for Partial/ Delay/ Non-Implementation | Action to be Taken |
| Action Plan | Person / Dept. Responsible | Target Implementation Date |
| From | To |
| 2018-004 BWD | The non-submission of reports, especially the report on physical count of PPE and Inventory with net book value of P26,569,828.52and P730,412.96 respectively, precluded the auditor from conducting timely audit and from ascertaining the validity, existence and accuracy of reported balances as of year-end. | We recommend that reports should be submitted to the Auditor regularly in accordance with the above-mentioned circulars either in soft or hard copy. If said reports are too bulky to be sent electronically, notice should be given so that the auditor or its representative can be sent to review it. |  |  |  |  |  |  |  |
| 2018-003 BWD | The Agency did not prepare its Corporate Operating Budget as in accordance with the provisions of DBM Corporate Budget No. 22 dated December 1, 2016 and submit it to the Deparatment of Budget and Management within the prescribed deadline. | We recommended that Management prepare its Corporate Operating Budget embodying estimates of revenues and expenditures that would serve as a guide in its operations. |  |  |  |  |  |  |  |
| 2018-002 BWD | Procurement for the construction materials with an estimated budget of P2,285,153.00 for the Construction of the Two-Storey Office Building was conducted through Shopping, contrary to the guidelines prescribed by GPPB through Resolution No. 018-2006 dated December 6, 2006. | We recommend to the Management through the Procurement Unit and Bids and Awards Committee to maximize the purpose of preparing Annual Procurement Plan and carefully plan for the procurement of the needs of the District, in such manner that will not violate the allowable mode of procurement for each purchase. |  |  |  |  |  |  |  |
| 2018-001 (BWD) | The District failed to withhold the mandatory 5% Final Vat and 2% Income Tax on its payment to New Queenbee Security Services, Inc. for the Security Services of the District, contrary to Revenue Regulations 4-2007 and 2-98. | We recommend to the Management through the Accounting unit to perform its responsibility as withholding agent and contribute to the revenue collection efforts of the national government by religiously withholding 5% Final VAT, and the 1% for Goods and 2% for Services’ Creditable Income Tax on its payment to suppliers and/or service providers. |  |  |  |  |  |  |  |
| 2018-005 BWD | The Agency did not procure common-use supplies and materials from the Procurement Service (PS), which is not in compliance with the provisions of Administrative Order No. 17. | We recommended that Management start procuring common-use supplies and materials from the Procurement Service pursuant to the provisions of Administrative Order No. 17. In cases that these items are not available from the PS, the management must secure a certification that said supplies and materials are not available before procuring the same from other suppliers. The procurement of supplies regularly needed by the Agency should be done on a quarterly basis. |  |  |  |  |  |  |  |
| 2018-006 BWD | The Agency did not undertake preliminary actions on the development of a Water Safety Plan as required in LWUA Memorandum Circular No. 010.14 and DOH Administrative Order No. 2014-0027, as a consequence, risks that threaten the safe quality of drinking water and public health may not have been properly addressed by appropriate control measures. | We recommended that Management carry out the necessary steps in the preparation and development of a Water Safety Plan this CY 2017 as provided under DOH Administrative Order No. 2014-0027.  |  |  |  |  |  |  |  |
| 2018-007 BWD | The Agency did not comply with Section 4 of the Implementing Rules and Regulations of Republic Act 10121 and Section 35 of the General Appropriations Act (GAA) for FY 2017 to implement programs, projects and activities to address the adverse effects of climate change and disaster risk reduction and mitigation. | We recommend that plans, programs, projects and other activities should be implemented to address this need in compliance with Section 4 of the IRR of RA 10121 and Section 35 of the FY 2017 General Appropriations Act. |  |  |  |  |  |  |  |

*Note: Status of Implementation may either be (a) Fully Implemented, (b) On-going, (c) Not Implemented, (d) Partially implemented or (e) Delayed*

Prepared by:

 **ENGR. NOEL L. RESABAL**

 General Manager

Republic of the Philippines

**COMMISSION ON AUDIT**

Regional Office No. 10

Cagayan de Oro City

**OFFICE OF THE SUPERVISING AUDITOR**

CGS -Water Districts and Other CGS Stand-Alone Agencies

February 23, 2018

**ATTY. CELSO L. VOCAL**

Regional Director

COA - Regional Office No. X

Cagayan de Oro City

Sir:

We are submitting the Annual Audit Report on the Bacolod Water District for the year ended December 31, 2017 pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43(2) of Presidential Decree No. 1445.

The audit was conducted to (a) verify the level of assurance that may be placed on management’s assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior years’ audit recommendations.

The audit report consists of three parts, namely: Part I - Audited Financial Statements; Part II – Observations and Recommendations; and Part III - Status of Implementation of Prior Year’s Audit Recommendations. The observations and recommendations were communicated to Management thru Audit Observation Memorandum and discussed with management officials and staff. Their comments are included in the appropriate portion of this report.

Except for the effects of the matters discussed in Part II of this Report, there is reasonable assurance that the financial statements are free from material misstatement(s) and were prepared in accordance with applicable laws, rules and regulations and in conformity with generally accepted state accounting principles.

Our audit was conducted in accordance with the Philippine Public Sector Standards on Auditing (PPSSA) and we believe that the audit evidence we have obtained provide reasonable basis for our audit opinion/report.

Very truly yours,



|  |
| --- |
| **CECILIA A. PONTILLAS** |
| State Auditor IV |
| Acting Supervising Auditor |

Republic of the Philippines

**COMMISSION ON AUDIT**

Regional Office No. 10

Cagayan de Oro City

**OFFICE OF THE AUDIT TEAM LEADER**

R10-05, CGS – Water Districts and Other CGS Stand-Alone Agencies

February 22, 2018

**Ms. CECILIA A. PONTILLAS**

Acting Supervising Auditor

CGS – Water Districts and Other CGS Stand-Alone Agencies

COA - Regional Office No. X

Cagayan de Oro City

Ma’am:

In compliance with Section 2, Article IX-D of the Philippine Constitution and pertinent provisions of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we audited the accounts and operations of **Bacolod Water District,** Bacolod, Lanao del Norte, as of December 31, 2017.

The audit was conducted to (a) verify the level of assurance that may be placed on management’s assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior years’ audit recommendations.

The audit report consists of three parts, namely: Part I - Audited Financial Statements; Part II – Observations and Recommendations; and Part III - Status of Implementation of Prior Year’s Audit Recommendations. The observations and recommendations were communicated to Management thru Audit Observation Memorandum and discussed with management officials and staff. Their comments are included in the appropriate portion of this report.

Except for the effects of the matters discussed in Part II of this Report, there is reasonable assurance that the financial statements are free from material misstatement(s) and were prepared in accordance with applicable laws, rules and regulations and in conformity with generally accepted state accounting principles.

Our audit was conducted in accordance with the Philippine Public Sector Standards on Auditing (PPSSA) and we believe that the audit evidence we have obtained provide reasonable basis for our audit opinion/report.

Very truly yours,



|  |
| --- |
| **AMADO PETER A. GARBANZOS** |
| State Auditor III |
| Acting Audit Team Leader |

**Republic of the Philippines**

**COMMISSION ON AUDIT**

**Regional Office No. 10**

**Carmen, Cagayan de Oro City**

**ANNUAL AUDIT REPORT**

**ON THE**

**BACOLOD WATER DISTRICT**

**Bacolod, Lanao del Norte**

**For the Year Ended December 31, 2017**

**EXECUTIVE SUMMARY**

1. **INTRODUCTION**

The Bacolod Water District (BWD), a government-owned and controlled corporation was created on May 23, 1994 by the Sangguniang Bayan of Bacolod, Lanao del Norte by virtue of Sangguniang Bayan Resolution No. 225. It inherited the water system from the Local Government of Bacolod which was constructed by NAWASA in 1976. On December 6, 1994, the Local Water Utilities Administration (LWUA) issued a Certificate of Conditional Conformance (CCC) No. 543.

Some of the major functions of the BWD include the following:

1. 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 districts;
2. Providing, maintaining and operating waste water collection, treatment and disposal facilities; and
3. Conducting such other functions and operations incidental to water resource development, utilization and disposal within such districts, as are necessary or incidental to said purpose.

As of December 31, 2017, the governing board of BWD is composed of directors representing the different sectors and organization within the municipality of Bacolod, who were appointed by the Local Chief Executive. They exercise corporate powers and determine policies for the operations of the BWD. They are as follows:

Chairperson : Ms. Elsa P. Panoril - Business Sector

Members : Dra. Lerma C. Daraman - Professional Sector

Ms. Leah A. Marcera - Women’s Sector

Ms.Godilla V. Lao - Civic Sector

 Mr. Alejandro Q. Visitacion - Education Sector

The audit covered the examination of the accounts and financial transactions and operations of Bacolod Water District, Bacolod, Lanaodel Norte as of December 31, 2017.

The audit consisted of review of operating procedures, inspection of programs and projects, testing the adequacy of the related systems and controls set by the agency, verification of the accuracy, legality and completeness of its financial transactions, interview with concerned officials and employees, and the application of other audit procedures considered necessary under the circumstances.

It was also made to determine whether the District’s financial statements (FS) present fairly its financial position and results of financial performance and cash flows, and whether applicable laws, rules and regulations were followed. Further, 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.

1. **FINANCIAL HIGHLIGHTS**

The financial position and the results of operation of BWD for the year ended December 31, 2017, with the comparative figures for CY 2016, are presented below:

*Comparative Financial Position*

As of December 31, 2017, there was an increase of 12.83% in assets, increase of 7.80% in liabilities and an increase of 21.90% in government equity, summarized as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **Increase/ (Decrease)** | **Percentage** |
| Assets | ~~P~~ 39,483,895.47 | ~~P~~34,992,028.61 | ~~P~~4,491,866.86 | 12.83% |
| Liabilities | 24,239,038.72 | 22,485,633.06 | 1,753,405.66 | 7.80% |
| Government Equity | ~~P~~15,244,856.75 | ~~P~~12,506,395.55 | ~~P~~2,738,461.20 | 21.90% |

*Comparative Results of Operations*

For the Calendar Year 2017, the Water District generated a total income of~~P~~14,296,777.28 from water sales, other businesses, fines and penalties, interest and miscellaneous income. An increase of ~~P~~232,262.31or 1.65% was noted compared to previous year’s income of ~~P~~14,064,514.97.Net income, on the other hand, decreased by 23.30% compared to last year’s. Details of its results of operations are presented below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **Increase/ (Decrease)** | **Percentage** |
| Income | ~~P~~ 14,296,777.28 | ~~P~~14,064,514.97 | ~~P~~232,262.31 | 1.65% |
| Expenditures | 11,593,374.46 | 10,540,041.18 | 1,053,333.28 | 10.00% |
| Net Income  | 2,703,402.82 | ~~P~~3,524,473.79 | ~~P~~ (821,070.97) | (23.30%) |

*Operational Highlights*

The BWD was formed for the purpose of installing, improving, maintaining and operating water supply and distribution systems for domestic, industrial and agricultural uses within the boundaries of the municipality of Bacolod, LanaodelNorte.

As of December 31, 2017, the BWDhas served a total population of 16,000. It has total active service connections of 3,200. Total water sales billed for the year including penalties amounted to~~P~~13,802,883.97 and collected a total of ~~P~~13,806,886.82, which includes collections for the current account, arrears-current year and arrears-previous years.

Water production as of December 31, 2017 reached 749,678 cubic meters, of which the total accounted water was computed at 633,492 cubic meters or 85%, leaving a balance of 15% or 116,186 cu. meters as unaccounted water.

1. **INDEPENDENT AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS**

A Qualified Opinion was rendered on the fairness of the presentation of the Financial Statements due to the non-submission of reports, especially the report on physical count of PPE and Inventory with net book value of P26,569,828.52 and P730,412.96 respectively, precluding the auditor from conducting timely audit and from ascertaining the validity, existence and accuracy of reported balances as of year-end..

1. **SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS**

Other than the basis for the modified opinion, the following are the other significant observations with the corresponding recommendations, which need immediate action:

1. **The Agency did not prepare its Corporate Operating Budget as in accordance with the provisions of DBM Corporate Budget No. 22 dated December 1, 2016 and submit it to the Department of Budget and Management within the prescribed deadline.**

We recommended that Management prepare its Corporate Operating Budget embodying estimates of revenues and expenditures that would serve as a guide in its operations.

1. **Procurement for the construction materials with an estimated budget of P2,285,153.00 for the Construction of the Two-Storey Office Building was conducted through Shopping, contrary to the guidelines prescribed by GPPB through Resolution No. 018-2006 dated December 6, 2006.**

We recommended to the Management through the Procurement Unit and Bids and Awards Committee to maximize the purpose of preparing Annual Procurement Plan and carefully plan for the procurement of the needs of the District, in such manner that will not violate the allowable mode of procurement for each purchase.

1. **The District failed to withheld the mandatory 5% Final Vat and 2% Income Tax on its payment to New Queenbee Security Services, Inc. for the Security Services of the District, contrary to Revenue Regulations 4-2007 and 2-98.**

We recommended to the Management through the Accounting unit to perform its responsibility as withholding agent and contribute to the revenue collection efforts of the national government by religiously withholding 5% Final VAT, and the 1% for Goods and 2% for Services’ Creditable Income Tax on its payment to suppliers and/or service providers.

1. **The Agency did not procure common-use supplies and materials from the Procurement Service (PS), which is not in compliance with the provisions of Administrative Order No. 17.**

We recommended that Management start procuring common-use supplies and materials from the Procurement Service pursuant to the provisions of Administrative Order No. 17. In cases that these items are not available from the PS, the management must secure a certification that said supplies and materials are not available before procuring the same from other suppliers. The procurement of supplies regularly needed by the Agency should be done on a quarterly basis.

1. **The Agency did not undertake preliminary actions on the development of a Water Safety Plan as required in LWUA Memorandum Circular No. 010.14 and DOH Administrative Order No. 2014-0027, as a consequence, risks that threaten the safe quality of drinking water and public health may not have been properly addressed by appropriate control measures.**

We recommended that Management carry out the necessary steps in the preparation and development of a Water Safety Plan this CY 2017 as provided under DOH Administrative Order No. 2014-0027.

1. **The Agency did not comply with Section 4 of the Implementing Rules and Regulations of Republic Act 10121 and Section 35 of the General Appropriations Act (GAA) for FY 2017 to implement programs, projects and activities to address the adverse effects of climate change and disaster risk reduction and mitigation.**

We recommended that plans, programs, projects and other activities should be implemented to address this need in compliance with Section 4 of the IRR of RA 10121 and Section 35 of the FY 2017 General Appropriations Act.

1. **STATUS OF SUSPENSIONS, DISALLOWANCES AND CHARGES**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Particulars* | *Balance, 12/31/2016* | *CY 2017 Issuances* | *Settlement* | *Balance, 12/31/2017* |
|  | P0.00 | P0.00 | P0.00 | P0.00 |
| Disallowances | 23,800.00 | 0.00 | 0.00 | 23,800.00 |
| Charges | 0.00 | 0.00 | 0.00 | 0.00 |

1. **STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS**

All of the four audit recommendations contained in the Annual Audit Report of the Water District for the calendar year 2016 were fully implemented.

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**PART I –**

**AUDITED FINANCIAL STATEMENTS**

Republic of the Philippines

**COMMISSION ON AUDIT**

Regional Office No. 10

Cagayan de Oro City

**OFFICE OF THE ACTING SUPERVISING AUDITOR**

Audit Group CGS - Water Districts and Other CGS Stand-Alone Agencies

**INDEPENDENT AUDITOR’S REPORT**

**MS. ELSA P. PANORIL**

Chairperson of the Board of Directors

Bacolod Water District

Bacolod, Lanao del Norte

We have audited the accompanying financial statements of Bacolod Water District which comprise the Statement of Financial Position as of December 31, 2017, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements and are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor’s Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis of our audit opinion.

*Basis for Qualified Audit Opinion*

As discussed in detail in Part II of this report:

* The non-submission of reports, especially the report on physical count of PPE and Inventory with net book value of P26,569,828.52 and P730,412.96 respectively, precluded the auditor from conducting timely audit and from ascertaining the validity, existence and accuracy of reported balances as of year-end.

*Qualified Opinion*

In our opinion, except for the effects on the matters described in the Basis for Qualified Opinion, the financial statements present fairly in all material respects, the financial position of the Bacolod Water District as of December 31, 2017 and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

*Other Matters*

The exit conference for the results of the financial and compliance audit of the calendar year 2017 operations was conducted on February 19, 2018.

**COMMISSION ON AUDIT**



**CECILIA A. PONTILLAS**

State Auditor IV

Acting Supervising Auditor

February 23, 2018

Republic of the Philippines

**COMMISSION ON AUDIT**

Regional Office No. 10

Cagayan de Oro City

**OFFICE OF THE ACTING SUPERVISING AUDITOR**

Audit Group CGS - Water Districts and Other CGS Stand-Alone Agencies

**INDEPENDENT AUDITOR’S REPORT**

**ENGR. NOEL L. RESABAL**

General Manager

Bacolod Water District

Bacolod, Lanao del Norte

We have audited the accompanying financial statements of Bacolod Water District which comprise the Statement of Financial Position as of December 31, 2017, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements and are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor’s Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis of our audit opinion.

*Basis for Qualified Audit Opinion*

As discussed in detail in Part II of this report:

* The non-submission of reports, especially the report on physical count of PPE and Inventory with net book value of P26,569,828.52 and P730,412.96 respectively, precluded the auditor from conducting timely audit and from ascertaining the validity, existence and accuracy of reported balances as of year-end.

*Qualified Opinion*

In our opinion, except for the effects on the matters described in the Basis for Qualified Opinion, the financial statements present fairly in all material respects, the financial position of the Bacolod Water District as of December 31, 2017 and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

*Other Matters*

The exit conference for the results of the financial and compliance audit of the calendar year 2017 operations was conducted on February 19, 2018.

**COMMISSION ON AUDIT**



**CECILIA A. PONTILLAS**

State Auditor IV

Acting Supervising Auditor

February 23, 2018

Republic of the Philippines

**BACOLOD WATER DISTRICT**

**Bacolod, Lanao del Norte**

TIN 004-367-022

CCC No. 543

Tel. No. (063) 227-2041

**STATEMENT OF MANAGEMENT’S RESPONSIBILITY FOR**

**FINANCIAL STATEMENTS**

The Management of the Bacolod Water District is responsible for the preparation of the financial statements as at December 31, 2017, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of the Bacolod Water District in accordance with the Philippine Public Sector Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

|  |
| --- |
| **ELSA P. PANORIL**Chairman of the Board Date: \_\_\_\_\_\_\_\_\_\_\_ |
| **ALMA S. MAGLANA**Bookkeeper DesignateDate: \_\_\_\_\_\_\_\_\_\_\_ | **ENGR. NOEL L. RESABAL**General ManagerDate: \_\_\_\_\_\_\_\_\_\_\_ |

**BACOLOD WATER DISTRICT**

**CONDENSED STATEMENT OF FINANCIAL POSITION**

**AS AT DECEMBER 31, 2017**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **NOTE** |  | **2017** |  | **2016** |
|  |  |
| **ASSETS** |
|  |  |  |  |  |  |  |  |
| **Current Assets** |  |  |  |  |  |
|  | Cash and Cash Equivalents | 1 |  | 10,852,740.11  |  | 10,010,830.77  |
|  | Receivables | 2 |  | 1,326,151.84  |  | 1,346,374.42  |
|  | Inventories | 3 |  | 730,412.96  |  | 433,492.29  |
|  | Other Current Assets | 4 |  | 4,762.04  |  | 4,122.00  |
|  |  | **Total Current Assets** |  |  | **12,914,066.95**  |  | **11,794,819.48**  |
|  |  |  |  |  |  |  |  |
| **Non-Current Assets** |  |  |  |  |  |
|  | Property, Plant and Equipment | 5 |  | 26,569,828.52  |  | 23,197,209.13  |
|  |  | **Total Non-Current Assets** |  |  | **26,569,828.52**  |  | **23,197,209.13**  |
|  |  |  |  |  |  |  |  |
| **Total Assets** |  |  | **39,483,895.47**  |  | **34,992,028.61**  |
|  |  |  |  |  |  |  |  |
| **LIABILITIES** |
|  |  |  |  |  |  |  |  |
| **Current Liabilities** |  |  |  |  |  |
|  | Financial Liabilities  | 6 |  | 56,785.00  |  | 218,255.00  |
|  | Inter-Agency Payables | 7 |  | 181,589.20  |  | 364,049.16  |
|  | Other Payables | 8 |  | 288,960.70  |  | 2,684.08  |
|  |  | **Total Current Liabilities** |  |  | **527,334.90**  |  | **584,988.24**  |
|  |  |  |  |  |  |  |  |
| **Non-Current Liabilities** |  |  |  |  |  |
|  | Financial Liabilities  | 9 |  | 23,673,604.82  |  | 21,862,545.82  |
|  | Trust Liabilities | 10 |  | 38,099.00  |  | 38,099.00  |
|  |  | **Total Non-Current Liabilities** |  | **23,711,703.82**  |  | **21,900,644.82**  |
|  |  |  |  |  |  |  |  |
| **Total Liabilities** |  |  | **24,239,038.72**  |  | **22,485,633.06**  |
|  |  |  |  |  |  |  |  |
| **EQUITY** |
|  |  |  |  |  |  |  |  |
|  | Government Equity | 11 |  | 325,542.96  |  | 325,542.96  |
|  | Retained Earnings/(Deficit) | 12 |  | 14,919,313.79  |  | 12,180,852.59  |
| **Total Equity** |  |  | **15,244,856.75**  |  | **12,506,395.55**  |
|  |  |  |  |  |  |  |  |
| **Total Liabilities and Equity** |  |  | **39,483,895.47**  |  | **34,992,028.61**  |

*(See Accompanying Notes to Financial Statements)*

**BACOLOD WATER DISTRICT**

**CONDENSED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **NOTE** |  | **2017** |  | **2016** |
|  |  |  |  |  |  |  |  |  |  |  |
| **Income** |  |  |  |  |  |  |  |  |
|  | Service and Business Income |  | 13 |  | 14,052,623.54  |  | 13,717,732.23  |
|  | Other Non-Operating Income |  | 14 |  | 244,153.74  |  |  346,782.74  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Total Income** |  |  |  |  |  **14,296,777.28**  |  |  **14,064,514.97**  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Expenses** |  |  |  |  |  |  |  |  |
|  | Personnel Services |  |  | 15 |  | 4,760,756.86  |  | 4,426,297.84  |
|  | Maintenance and Other Operating Expenses | 16 |  | 4,568,997.86  |  | 3,873,084.47  |
|  | Financial Expenses |  |  | 17 |  |  1,135,281.38  |  | 1,133,288.63  |
|  | Non-Cash Expenses |  |  | 18 |  |  1,128,338.36  |  | 1,107,370.24  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Total Expenses** |  |  |  |  |  **11,593,374.46**  |  |  **10,540,041.18**  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Profit/(Loss) Before Tax** |  |  **2,703,402.82**  |  |  **3,524,473.79**  |
| **Income Tax Expense/(Benefit)** |  | 0.00  |  | 0.00  |
| **Profit/(Loss) After Tax** |  |  |  |  | **2,703,402.82** |  | **3,524,473.79** |
| **Net Assistance/Subsidy/(Financial Assistance/Subsidy/Contribution)** |  |  0.00  |  |  0.00  |
| **Net Income/(Loss)** |  |  |  |  | **2,703,402.82** |  | **3,524,473.79** |
| **Other Comprehensive Income/(Loss) for the Period** |  |  | 0.00 |  | 0.00 |
| **Comprehensive Income/(Loss)** |  |  **2,703,402.82**  |  |  **3,524,473.79**  |

*(See Accompanying Notes to Financial Statements)*

**BACOLOD WATER DISTRICT**

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|   |   |   |   |   | **Cumulative Translation Adjustment** | **Retained Earnings/ (Deficit)** | **TOTAL** |
|   |   |   |   |   |  |  |  |
| **BALANCE AT JANUARY 1, 2016** | **325,542.96**  | **8,558,073.67**  |  **8,883,616.63**  |
|   |   |   |   |   |   |   |   |
| **CHANGES IN EQUITY FOR 2016** |   |   |   |
|   |   | Comprehensive Income for the year |  0.00 | 3,524,473.79  |  0.00 |
|   |   | Other Adjustments |   |  0.00 |  98,305.13  |  0.00 |
|   |   |   |   |   |   |   |   |
| **BALANCE AT DECEMBER 31, 2016** | **325,542.96**  | **12,180,852.59**  |  **12,506,395.55**  |
|  |   |   |   |   |  |  |  |
| **CHANGES IN EQUITY FOR 2017** |   |   |   |
|   |   | Comprehensive Income for the year | 0.00 |  2,703,402.82  |  0.00 |
|   |   | Other Adjustments |   |  0.00 | 35,058.38  |  0.00 |
|   |   |   |   |   |   |   |   |
| **BALANCE AT DECEMBER 31, 2017** | **325,542.96**  | **14,919,313.79**  |  **15,244,856.75**  |

**BACOLOD WATER DISTRICT**

**CONDENSED STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2017** |  | **2016** |
|  |  |  |  |  |  |  |
| **CASH FLOWS FROM OPERATING ACTIVITIES** |  |  |  |
|  |  |  |  |  |  |  |
|  | **Cash Inflows** |  |  |  |
|  |  | Proceeds from Sale of Goods and Services |  |  |  |
|  |  | Collection of Income/Revenue | 14,153,647.23  |  | 13,155,547.40  |
|  |  | Collection of Receivables | 2,938,529.67  |  | 1,524,448.08  |
|  |  |
|  | **Total Cash Inflows** | **17,092,176.90**  |  | **14,679,995.48**  |
|  |  | Adjustments | 3,691.07  |  |   |
|  | **Adjusted Cash Inflows** | **17,095,867.97**  |  | **14,679,995.48**  |
|  |  |  |  |  |  |  |
|  | **Cash Outflows** |  |  |  |
|  |  | Payment of Expenses | 7,399,381.74  |  | 6,371,881.09  |
|  |  | Purchase of Inventories | 617,358.96  |  | 887,315.55  |
|  |  | Grant of Cash Advances | 395,155.00  |  | 294,782.92  |
|  |  | Prepayments | 9,121.49  |  | 4,415.76  |
|  |  | Payments of Accounts Payable | 251,939.08  |  | 69,200.00  |
|  |  | Remittance of Personnel Benefit Contributions and Mandatory Deductions | 1,651,481.76  |  | 1,485,833.09  |
|  |  | Other Disbursements | 2,349,519.20  |  | 31,300.00  |
|  | **Total Cash Outflows** | **12,673,957.23**  |  | **9,144,728.41**  |
|  |  | Adjustments | 3,691.07  |  |  0.00 |
|  | **Adjusted Cash Outflows** | **12,677,648.30**  |  | **9,144,728.41**  |
|  |  |  |  |  |  |  |
| **Net Cash Provided by/(Used in) Operating Activities** | **4,418,219.67**  |  | **5,535,267.07**  |
|  |  |  |  |  |
| **CASH FLOWS FROM INVESTING ACTIVITIES** |  |  |  |
|  |  |  |  |  |  |  |
|  | **Cash Outflows** |  |  |  |
|  |  | Purchase/Construction of Property, Plant and Equipment  |  4,252,037.95  |  |  16,500.00  |
|  | **Total Cash Outflows** | **4,252,037.95**  |  | **16,500.00**  |
|  |  | Adjustments | 0.00  |  | 0.00  |
|  | **Adjusted Cash Outflows** | **4,252,037.95**  |  | **16,500.00**  |
|  |  |  |  |  |  |  |
| **Net Cash Provided By/(Used In) Investing Activities** | **(4,252,037.95)** |  | **(16,500.00)** |
|  |  |  |  |  |  |  |
| **CASH FLOWS FROM FINANCING ACTIVITIES** |  |  |  |
|  |  |  |  |  |  |  |
|  | **Cash Inflows** |  |  |  |
|  |  | Proceeds from Domestic and Foreign Loans | 2,975,000.00  |  | 525,000.00  |
|  | **Total Cash Inflows** | **2,975,000.00**  |  | **525,000.00**  |
|  |  | Adjustments |   |  |   |
|  | **Adjusted Cash Inflows** | **2,975,000.00**  |  | **525,000.00**  |
|  |  |  |  |  |  |  |
|  | **Cash Outflows** |  |  |  |
|  |  | Payment of Long-Term Liabilities | 1,163,941.00  |  | 1,112,138.00  |
|  |  | Payment of Interest on Loans and Other Financial Charges | 1,135,331.38  |  | 1,057,479.00  |
|  | **Total Cash Outflows** | **2,299,272.38**  |  | **2,169,617.00**  |
|  |  | Adjustments | 0.00  |  | 0.00  |
| **Adjusted Cash Outflows** | **2,299,272.38**  |  | **2,169,617.00**  |
|  |  |  |  |  |  |  |
| **Net Cash Provided By/(Used In) Financing Activities** | **675,727.62**  |  | **(1,644,617.00)** |
|  |  |  |  |  |  |  |
| **INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **841,909.34**  |  | **3,874,150.07**  |
|  |  |  |  |  |  |  |
| **Effects of Exchange Rate Changes on Cash and Cash Equivalents** | 0.00 |  | 0.00 |
|  |  |  |  |  |  |  |
| **CASH AND CASH EQUIVALENTS, JANUARY 1** | **10,010,830.77**  |  | **6,136,680.70**  |
|  |  |  |  |  |  |  |
| **CASH AND CASH EQUIVALENTS, DECEMBER 31** | **10,852,740.11**  |  | **10,010,830.77**  |

**BACOLOD WATER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

For the year ended December 31, 2017

1. **Brief Historical Background:**

Bacolod Water District (BWD) was formed on May 23, 1994 by virtue of Sangguniang Bayan Resolution No. 225. As a consequence, it inherited from the local government the water system which was constructed by NAWASA in 1976. The District’s Certificate of Conditional Conformance (CCC) numbered 543 was subsequently issued by the Local Water Utilities Administration (LWUA) on December 6, 1994.

All Local Water Districts were declared as government-owned and controlled corporations (GOCC’s) by the Supreme Court on September 13, 1991 in case docketed as GR Nos. 95237-38.

The Board of Directors had diligently assisted in managing the operation of the district. Since August 1995, the District is actively headed by the General Manager in attaining its objectives, mission and vision.

**Mission**

Committed to provide adequate, safe, sustainable, potable and affordable water, and outstanding services in a financially responsible manner through an excellent operation and development.

**Vision**

To be an effective partner of the community in sustaining life and development through excellent water services with utmost concern of a good management.

The policy-making body of the Bacolod (LDN) Water District is the Board of Directors, composed of the five members:

|  |  |  |
| --- | --- | --- |
| **Name** | **Designation** | **Sector** |
| Mrs. Elsa P. Panoril | Chairman | Business |
| Mrs. Lerma C. Daraman M.D. | Vice-Chairman | Professional |
| Mrs.Godilla V. Lao | Secretary | Civic |
| Mrs. Leah A. Marcera | Member | Women |
| Mr. Alejandro Visitacion | Member | Education |

**2016 Operational and Financial Highlights**

A comparative financial condition and results of operations for CY 2016 and 2015 is presented below

Financial Condition

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **Increase****(Decrease)** | **Percentage** |
| **Assets** | 39,483,895.47 | 34,992,028.61 | 4,491,866.86 | 12.83% |
| **Liabilities** | 24,239,038.72 | 22,485,633.06 | 1,155,613.56 | 7.80% |
| **Equity** | 15,244,856.75 | 12,506,395.55 | 2,738,461.20 | 21.90% |

 Results of Operations

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **Increase****(Decrease)** | **Percentage** |
| **Income** | 14,296,777.28 | 14,064,514.97 | 232,262.31 | 1.65% |
| **Expenses** | 11,593,374.46 | 10,540,041.18 | 1,053,333.28 | 10% |
| **Net Income** | 2,703,402.82 | 3,524,473.79 | (821,070.97) | (23.30%) |

The District is operating profitably and maintains a good financial position, indicating its capability to recover the cost invested to the system operation. As of December 31, 2017, it has 3,200 service connections and serves as estimated population of 16,000.

1. **Summary of Significant Accounting Policies**

 The significant accounting policies that have been used in the preparation of these financial statements are summarized below.

**B.1 Basis of Financial Statement Presentation**

The financial statements have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS) and the Revised Chart of Accounts (RCA) for Government Corporations (GC.) classified as Government Business Enterprises (GBEs) under COA Circular No. 2015-010.

**B.2 Significant Accounting Judgments and Estimates**

 The preparation of the financial statements are in accordance with the PFRS which require the use of certain critical accounting estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses. It also requires management to exercise its judgment in applying the district’s accounting policies. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

**B.3 Basis of Recording**

The District adopts the accrual method of accounting. All expenses are recognized when incurred and reported in the financial statements in the period to which they relate. Income is on accrual basis except for transactions where accrual basis in impractical or when law requires other methods.

**B.4 Monetary Denomination Used**

The financial statements are presented in Philippine Peso as its monetary domination used to facilitate proper recording and reporting of the transactions except when otherwise indicated.

**B.5 Method of Accounting**

 The District uses the Revised Chart of Accounts prescribed under COA Circular No. 2015-010 dated December 01, 2015 effective January 01, 2016.

**B.6 Significant accounting policies observed for each account**

B.6.1 Cash and Cash Equivalents

 Cash includes cash on hand and cash in banks. Cash is valued at face value.

 Petty Cash Fund is maintained under the Imprest system. All replenishment is directly charged to appropriate expense account.

B.6.2 Receivables

 Receivables are stated at face value less allowance for impairment.

B.6.3 Inventories

 Regular purchase are coursed thru the inventory account and issuances thereof are recorded as they take place except those purchased out of Petty Cash which shall be for immediate use and not for stock. Such case shall be charged immediately to the appropriate expense accounts.

 Purchase of supplies and materials for stock, regardless of whether or not they are consuming within the accounting period is recorded as inventory following the perpetual inventory method.

 Inventories include assets for consumption in the normal course of operations. Inventories of the District include materials and supplies that are kept in stock for future use in operations. These are grouped into office supplies inventory, accountable forms, plates and stickers inventory and other supplies and materials inventory.

B.6.4 Property, Plant and Equipment

 Property, Plant and Equipment consist of infrastructure assets, machinery and equipment, transportation equipment and construction in progress. The District’s PPE are recorded at cost.

*Initial Recognition*

 The initial cost of property and equipment consists of its purchase price, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use like transportation, freight, installation costs, etc. In the books of accounts, the purchase is immediately recorded as asset.

*Subsequent recognition*

 Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged to Maintenance and Other Operating Expenses (MOOE) in the period in which the costs are incurred.

*Derecognition*

 When assets are sold and retired, their cost and accumulated depreciation and amortization are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of income and expenses.

 Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

*Depreciation*

 The straight-line method of depreciation is used over the estimated useful lives of the assets. A residual value equivalent to five percent (10%) of the cost is set-up and depreciation starts on the second month after purchase/completion of the property, plant and equipment.

B.6.5 Construction in Progress

 Construction in-progress is stated at cost. While the construction of the project is in progress, no provision for depreciation is recognized.

 Construction in-progress is transferred to the related Property, Plant and Equipment account when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use have been completed, and the property, plant and equipment are ready for service.

B.6.6 Liabilities

 Liabilities are recognized only when goods are delivered and/or services rendered or when suppliers’ bills are received.

B.6.8 Revenue

 Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the enterprise. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

 When bill is imposed and not paid on time or after the lapse of due date, the district recognizes such delay as Fines and Penalties-Business Income.

B.6.9 Expenses

 All expenses shall be recognized when incurred and reported in the financial statements in the period to which they relate.

B.6.10 Events after the Balance Sheet Date

 Any post year-end events that provide additional information about the District’s position at balance sheet date (adjusting events) are reflected in the financial statements. Any post year-end event that is not adjusting event is disclosed in the notes to financial statements, when material.

B.6.11 Employee benefits

 The employees of the District are members of the Government Service Insurance System (GSIS), which provided life and retirement insurance coverage.

 The District recognizes the undiscounted amount of short term employee benefits, such as salaries, wages, bonuses, allowances, etc., as expense.

B.6.12 Changes in accounting policies and estimates

 The District recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

 The District recognizes the effects of changes in accounting estimates prospectively by including in surplus or deficit.

B.6.13 Correction of Errors

 Fundamental errors of prior years were corrected using the Prior Year’s Adjustment account while errors affecting the current year’s operations were affected to the current year accounts.

1. **Significant Management’s Accounting Judgments and Estimates**

 The preparation of the District’s financial statements in conformity with Philippine Financial Reporting Standards requires Management to make judgments, estimates and assumptions that affect the amounts reported in the District’s financial statements and accompanying notes.

 The estimates and assumptions used in the District’s financial statements are based upon Management’s evaluation of relevant facts and circumstances as of the date of the District’s financial statements.

 Actual results could differ from such estimates. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

C.1 Key Sources of Estimation Uncertainty

 In the application of the District’s accounting policies, Management is required to make, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

 The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

 The following represents a summary of the significant estimates and judgments and related impact and associated risks in the District’s financial statements.

*Estimated Useful Lives of Property and Equipment*

The District estimates the useful lives of property, plant and equipment based on the LWUA’s Commercial Practices Manual-COA.

 Depreciation and amortization are calculated on a straight-line basis, and assets are depreciated over the following estimated useful lives as follows:

**PROPERTY, PLANT AND EQUIPMENT**

|  |  |  |
| --- | --- | --- |
| **ACCOUNT** | **DEPRECIATION METHOD** | **USEFUL LIFE** |
|  |  |  |
| Office Equipment | Straight-line method | 10 years |
| Motor Vehicles | Straight-line method | 10 years |
| Communication Equipment | Straight-line method | 5 years |
| Other Equipment | Straight-line method | 10-15 years |
| Water Plant,Structures& Improvements | Straight-line method | 30 years |
| Other Property,Plant& Equipment | Straight-line method | 10-30 years |

1. **Budget Information**

 Section 3.3 of DBM Corporate Circular No. 20 dated April 27, 2005 states that any increase in the approved principal corporate operating budget in the course of the budget year, as may be warranted by additional corporate receipts, shall require submission and approval of a supplemental corporate budget to cover the additional expenditures in line with the national government decentralization policy.

 The Department of Budget and Management authorized augmentation of funds or realignment of savings within the expense class without the need of prior approval.

1. **Cash and Cash Equivalents**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **2017** | **2016** |
| Cash –Collecting Officer |  | P18,896.50 | P86,054.60 |
| Cash in Bank- Local Currency, Current Account | C/A#0322106653 | 7,002,343.09 | 6,382,022.47 |
| Cash in Bank- Local Currency, Savings Account | S/A#0321116515 | 2,843,055.29 | 2,389,166.00 |
| Cash in Bank- Local Currency, Savings Account | S/A#0321223303 | 988,122.52 | 686,897.33 |
| Cash in Bank- Local Currency, Current Account | C/A#0322117108 | 322.71 |  466,690.37 |
| **TOTAL** |  | ***P 10,852,740.11*** | ***P 10,010,830.77*** |

1. **Receivables**

This account can be broken down as follows:

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| Accounts Receivable | 1,328,208.01 | 1,172,453.11 |
| Allowance for Impairment-Accounts Receivables  | (220,448.35) | (177,194.92) |
| Other Receivables: | 197,767.35 | 272,973.90 |
|  Allowance for Impairment-Other Receivables  | (11,046.80) | (11,489.90) |
|  Betty BAgo | 31,671.63 | 32,171.63 |
| BOD,GM,Cashier | 0.00 | 12,200.00 |
|  Office Building | 0.00 | 45,260.60 |
|  **TOTAL** | ***1,326,151.84*** | ***1,346,374.42*** |

Accounts Receivables are open receivables arising from services rendered to customers for water sales and other incidental services. The concessionaires are categorized as Residential, Government and Commercial.

1. **Inventories**

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| Other Supplies and Materials Inventory  | 411,341.06 | 371,012.59 |
| Office Supplies Inventory | 38220.90 | 43,579.70 |
| Accountable Forms, Plates and Stickers Inventory | 17,900.00 | 18,900.00 |
| SUB -TOTAL | **467,461.96** | **433,492.29** |
|  |  |  |
| Semi-Expendable Machinery and Equipments | 17,300.00 | 0.00 |
| Semi-Expendable Office Equipment | 32,645.00 | 0.00 |
| Semi-Expendable Furniture,Fixtures& Books | 179,306.00 | 0.00 |
| Semi-Expendable Sports Equipment | 28,900.00 | 0.00 |
| Semi-Expendable DRRE | 4,800.00 | 0.00 |
|  SUB –TOTAL | **262,951.00** | **0.00** |
| **TOTAL** | ***730,412.96*** | ***433,492.29*** |

Inventories are stated at cost using the moving average method required under existing COA regulations (COA Circular 2005-001).

1. **Other Current Assets**

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| Prepaid Insurance  | 4,762.04 | 4,122.00  |

1. **Property, Plant and Equipment**

This account includes the following:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **COST** | **Jan 1,2017** | **ADDITIONS** | **ADJUSTMENTS** | **2017** |
| LOT-Esperanza | 61,021.00 | 0.00 | 0.00 | 61,021.00 |
| LOT-Poblacion | 432,900.00 | 0.00 | 0.00 | 432,900.00 |
| Land Improvement | 0.00 | 134,080.00 | 0.00 | 134,080.00 |
| Buildings | 0.00 | 3,500,000.00 | 0.00 | 3,500.000.00 |
| Buildings –other Structures | 0.00 | 148,226.00 | 0.00 | 148,226.00 |
| Water Plant, Structures & Improvements | 12,296,110.76 | 0.00 | 0.00 | 12,296,110.76 |
| Machinery and Equipment | 3,329,879.12 | 591,520.67 | 0.00 | 3,921,399.79 |
| Transportation Equipment | 539,939.34 | 68,260.00 | 0.00 | 608,199.34 |
| Other Property, Plant & Equipment | 15,031,866.41 | 14,080.00 | 0.00 | 15,045,946.41 |
| *TOTAL* | *31,691,716.63* | *4,456,166.67* | *0.00* | *36,147,883.30* |
|  |  |  |  |  |
| ***ACCUMULATED DEPRECIATION*** |
| Water Plant, Structures& Improvements | 1,367,957.22 | 360,331.26 | 0.00 | 1,728,288.48 |
| Machinery and Equipment | 1,875,619.68 | 220,337.58 | 5,038.35 | 2,090,918.91 |
| Transportation Equipment | 328,588.21 | 83,323,86 | 19.25 | 411,892.12 |
| Other Property, Plant& Equipment | 4,922,342.39 | 424,612.88 | 0.00 | 5,346,955.27 |
| *TOTAL* | *8,494,507.50* | *1,088,605.58* | *5,058.30* | *9,578,054.78* |
| **NET BOOK VALUE** |  |  |  | **26,569,828.52** |

**6. Current Liabilities**

Financial Liabilities

 Accounts Payable-This account composes the following:

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| Flosystems Import & Export Inc. | 12,480.00 | 91,740.00 |
| Karl-Gelson Industrial Sales | 0.00 |  9,750.00 |
| CQ Printing Press | 0.00 | 74,950.00 |
| MIE Oro Plast Corporation | 44,305.00 | 39,870.00 |
| Crown Paper & Stationer | 0.00 | 1,945.00 |
|  |  |  |
| **TOTAL** | ***56,785.00*** | ***218.255.00*** |

Accounts Payables represent liabilities from suppliers and other payables which are due and demandable within one year from the reporting date.

**7. Inter-Agency Payables**

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
|  |  |  |
| Due to BIR | 55,619.21 | 38,368.23 |
| Due to GSIS | 95,434.58 | 87,193.08 |
| Due to PAG-IBIG | 25,935.41 | 25,088.90 |
| Due to Philhealth | 4,600.00 | 4,475.00 |
| Due to Other NGAs-COA | 0.00 | 208,923.95 |
|  |  |  |
| **TOTAL** | ***181,589.20*** | ***364,049.16*** |

**8. Other Payables**

This account composes the following:

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
|  |  |  |
| R.Uy Shell Station  | 10,054.00 | 0.00 |
| CQ Printing Press | 76,800.00 | 0.00 |
| PLDT | 2,910.60 | 2,684.08 |
| SKY and RAINS SISTER | 874.00 | 0.00 |
| RER | 530.00 | 0.00 |
| LANECO | 197,792.10 | 0.00 |
|  |  |  |
| **TOTAL** | ***288,960.70*** | ***2.684.08*** |
|  |  |  |

**9. Non-Current Liabilities**

Financial Liabilities

|  |  |  |
| --- | --- | --- |
| **Loan Type** | **2017** | **2016** |
|  |  |  |
| 3-766 | 1,598,429.08 | 1,720,160.08 |
| 4-2258A | 6,357,089.00 | 6,816,223.00 |
| 4-2258B | 1,034,830.00 | 1,109,574.00 |
| 9-0488 | 11,183,256.74 | 11,691,588.74 |
| Landbank-Office Building | 3,500.000.00 | 525,000.00 |
|  |  |  |
| **TOTAL** | ***23,673,604.82*** | ***21,862,545.82*** |

Loans Payable-Domestic represents the financial assistance/grant from the Local Water Utilities Administration (LWUA) and the Non-LWUA Initiated funds (NLIF).

**10. Trust Liabilities**

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
|  |  |  |
| **Customers’ Deposits Payable**  |  38,099.00 |  38,099.00 |

**11. Government Equity**

|  |  |
| --- | --- |
| **Contributed Capital** | **P 325,542.96** |
|  |  |
| This account includes the following donations:LGU’s piping system installed at Upper Demologan in CY 2000 | 200,000.00 |
| Distribution pipes donated by Barangay Binuni | 15,978.16 |
| Pipes donated by Senator Loren Legarda | 94,564.80 |
| LCD TB with cable donated by contractor  | 15,000.00 |
| **TOTAL** | ***P 325,542.96*** |

**12**. **Retained Earnings**

This composed of the following:

|  |  |  |
| --- | --- | --- |
| **Particulars** | **2017** | **2016** |
| Balance at beginning of period | 12,180,852.59 | 8,558,073.67 |
| Prior Years Payable | (33,566.00) |  |
| Prior years amortization adjustment | 0.00 | 69,833.48 |
| Reversal of Impairment Loss | 10,314.75 | 4,671.65 |
| Prior period adjustment | 58,309.63 |  |
| Settlement of Disallowances | 0.00 | 33,000.00 |
| Receivable-Disallowances | 0.00 | (9,200.00) |
| Net Income/(Loss) | 2,703,402.82 | 3,524,473.79 |
| **Balance at end of period** | ***14,919,313. 78*** | ***12,180,852.59*** |

**13. Business Income**

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| Income from Waterworks System | 13,321,325.92 | 13,017,011.70 |
| Fines & Penalties-Business Income | 481,588.05 | 466,457.40 |
| Interest Income | 15,894.57 | 16,128.13 |
| Other Business Income  | 233,845.00 | 218,135.00 |
|  **TOTAL** | ***14,052,623.54*** | ***13,717,732.23*** |

**14. Other Non-Operating Income**

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
|  |  |  |
| **Miscellaneous Income**  | 244,153.74 | 346,782.74 |

Miscellaneous Income is the result of the customer billing amount less the cost of materials used during the installation of new connection.

**15. Personnel Services**

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| Salaries & Wages |  |  |
|  Salaries & Wages-Regular  | 2,667,804.06 | 2,455,584.96 |
|  Salaries and Wages Casual/Cont | 40,329.53 | 0.00 |
| Other Compensation |  |  |
|  Personnel Economic Relief Allowance | 264,000.00 | 264,000.00 |
|  Representation Allowance | 60,000.00 | 60,000.00 |
|  Transportation Allowance | 60,000.00 | 60,000.00 |
|  Clothing Allowance | 55,000.00 | 55,000.00 |
|  Honoraria | 259,056.00 | 254,160.00 |
|  Longevity Pay | 5,000.00 | 10,000.00 |
|  Overtime & Holiday Pay | 182,984.25 | 159,015.56 |
|  Year-end Bonus | 220,742.00 | 409,670.00 |
|  Cash Gift | 55,000.00 | 55,000.00 |
|  Other Bonuses & Allowances | 22,000.00 | 22,000.00 |
| Personnel Benefit Contribution |  |  |
|  Retirement and Life Insurance Premium | 317,033.28 | 297,174.00 |
|  PAG-IBIG Contribution | 13,200.00 | 13,200.00 |
| Philhealth Contribution | 27,600.00 | 26,650.00 |
|  Employees Compensation Insurance | 13,200.00 | 13,127.40 |
| Other Personnel Benefits |  |  |
|  Terminal Leave Benefits | 99,459.37 | 98,715.92 |
|  Other Personnel Benefits |  398,348.37 |  173,000.00 |
|  **TOTAL** | ***P 4,760,756.86*** | ***P4,426,297.84*** |

**16. Maintenance and Other Operating Expenses**

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| Travel Expenses-Local | 169,373.83 | 229,076.59 |
| Training Expense | 129,916.75 | 91,903.50 |
| Office Supplies Expenses | 104,122.96 | 70,650.35 |
| Accountable Forms Expenses | 42,250.00 | 39,151.00 |
| Fuel, Oil, & Lubricant Expenses | 159,332.47 | 132,293.52 |
| Chemical and Filtering Supplies | 8,945.00 | 8,200.00 |
| Water Expenses | 17,425.15 | 4,643.00 |
| Electricity Expenses | 2,371,718.65 | 1,646,946.58 |
| Postage and Courier Services | 5,952.61 | 2,895.00 |
| Telephone Expenses | 41,505.54 | 41,875.58 |
| Internet Subscription Expenses | 36,375.00 | 38,156.25 |
| Cable, Satellite, Telegraph and Radio Expenses | 5,320.00 | 3,750.00 |
| Legal Services | 2,100.00 | 2,850.00 |
| Auditing Services | 0.00 | 171,140.80 |
| Security Services | 168,000.00 | 168,000.00 |
| Fidelity Bond Premium | 5,625.00 | 5,625.00 |
| Consultancy Services | 0.00 | 0.00 |
| Repairs & Maintenance-Buildings & Other Structures | 3,965.00 | 0.00 |
| Repairs & Maintenance-Machinery & Equipment | 91,828.25 | 20,175.00 |
| Repairs & Maintenance-Transportation Equipment | 56,439.52 | 40,146.18 |
| Repairs & Maintenance-Other PPE | 101, 697.52 | 256,167.94 |
| Repairs & Maintenance-Furniture, Fixtures & Books | 8,025.00 | 0.00 |
| Taxes, Duties & Licenses | 297,459.62 | 285,855.51 |
| Insurance Expenses | 8,481.45 | 7,798.93 |
| Advertising, Promotional & Marketing Expenses | 142,194.50 | 128,724.40 |
| Printing and Publication Expenses | 4,247.00 | 4,409.00 |
| Representation Expenses | 171,288.75 | 132,846.50 |
| Transportation & Delivery Expenses | 587.81 | 1,891.57 |
| Rent/Lease Expenses | 39,000.00 | 78,000.00 |
| Membership Dues & Contribution | 1,450.00 | 400.00 |
| Donations | 0.00 | 0.00 |
| Other Maintenance & Operating Expenses | 374,370.48 | 259,512.27 |
|  **TOTAL** | ***P 4,568,997.86*** | ***P3,873,084.47*** |

**17. Financial Expenses**

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| Interest Expenses | 1,135,281.38 | 1,057,479.00 |
| Bank Charges | 0.00 | 58,309.63 |
| Other Financial Charges | 0.00 | 17,500.00 |
|  | **P 1,135,281.38** | **P1,133,288.63** |

 Interest Expenses are interests paid to Local Water Utilities Administration (LWUA) and Non-LWUA Initiated Funds.

 Bank charges account is the amount paid to Landbank for the processing of the office building loan.

**18. Non-Cash Expenses**

This account consists of the following:

|  |  |  |
| --- | --- | --- |
|  | **2017** | **2016** |
| Depreciation-Building & Other Structures | 360,331.26 | 360,330.96 |
| Depreciation-Machinery and Equipment | 215,299.23 | 218,745.48 |
| Depreciation-Transportation Equipment | 83,303.91 | 68,708.29 |
| Depreciation-Other PPE | 424,612.88 | 421,443.73 |
| Impairment Loss-Loans and Receivables  | 44,791.08 | 38,141.78 |
|  **TOTAL** | ***P 1,128,338.36*** | ***P 1,107,370.24*** |

**PART II –**

**OBSERVATIONS AND**

**RECOMMENDATIONS**

**PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS**

1. **FINANCIAL AND COMPLIANCE AUDIT**
2. **The non-submission of reports, especially the report on physical count of PPE and Inventory with net book value of P26,569,828.52and P730,412.96 respectively, precluded the auditor from conducting timely audit and from ascertaining the validity, existence and accuracy of reported balances as of year-end.**

The following reports and documents are to be submitted to the Office of the Auditor at the following dates:

|  |  |  |
| --- | --- | --- |
| **Documents/Reports** | **Deadline of Submission** | **Legal Basis** |
| Quarterly Trial Balance with supporting schedules | Within the first 10 days of the following month | COA Circular 92-89E |
| Bank Reconciliation Statements | Within the first 15 days of the following month | Sec. 74 of PD 1445Sec. 2.1.4 of COA Circular No. 125a |
| Property, Plant and Equipment/Materials Inventory of Reports | Every 31st day of January each year | Sec. IV of COA Circular No. 80-124 |
| Contracts/Purchase Orders | Within 5 days after the execution of the contract / purchase orders (regardless of amount) | Sec. 1 of COA Circular 2009-001 |

Conflict affecting the City of Marawi prolonged land travel to Lanao del Norte due to the presence of military check-points and therefore time-consuming. Electronic submission of reports therefore was relied on. Communications sent to the District for the submission of said reports produce submission of some but not all required documents, especially the report on physical count on the inventory supplies and materials and the PPE amounting to P26,569,828.52 and P730,412.96 respectively as of December 31, 2017. No explanation, either written or verbal, was given to this Office for the non-submission.

Water districts was previously audited cyclically and therefore it is understandable that they do not know where they will submit the above-mentioned reports as there is no permanent auditor assigned to them. But starting CY 2013 water districts and other stand-alone agencies have auditors assigned to them who will regularly review the accounts of the agency. Thus, regular submission of reports should now be observed. With the advent of internet, reports can now be submitted electronically.

The non-submission of the required reports hampered review of the accounts affected by the said reports. Water District personnel are reminded that non-submission of the required reports is a ground for suspension of their salary.

**Recommendation:**

We recommend that reports should be submitted to the Auditor regularly in accordance with the above-mentioned circulars either in soft or hard copy. If said reports are too bulky to be sent electronically, notice should be given so that the auditor or its representative can be sent to review it.

**Management Comment:**

The Accounting unit did not submit reports on time since the construction of the Office Building project added more workload. The District agreed to submit reports for CY 2018.

1. **The Agency did not prepare its Corporate Operating Budget as in accordance with the provisions of DBM Corporate Budget No. 22 dated December 1, 2016 and submit it to the Department of Budget and Management within the prescribed deadline.**

The Department of Budget and Management (DBM) issued the CNBC No. 22 dated December 1, 2016. Section 2 and 3 of CNBC No. 22 states:

***“2.0 Coverage***

*This Circular shall apply to all GOCCs and GFIs with or without budgetary support from the national government.*

***3.0 General Guidelines and Policies***

* 1. *GOCCs/GFIs shall prepare and submit their COBs to the Department of Budget and Management (DBM) prior to the beginning of the ensuing fiscal year but not later than December 31 of the current year. For GOCCs/GFIs receiving budgetary support from the national government, release thereof shall depend on the timely submission of their COBs.*
	2. *The COB shall consist of estimates of financing sources and expenditures for current operating and capital outlays. The COB should reflect realistic estimates of receipts from all sources to support the level of proposed expenditures clearly supported by assumptions, programs or projects.*
	3. *Any increase in the approved principal COB in the course of the budget year as may be warranted by additional corporate receipts shall require submission and approval of a supplemental COB to cover the additional expenditures. In case a GOCC/GFI submits its principal COB after June 30 of the fiscal year, the same shall no longer be reviewed/evaluated by the DBM. As such, the COB level shall only be up to the extent of last year's approved budget level, net of non-recurring expenses.”*

Request for the Corporate Operating Budget (COB) revealed that the Agency did not prepare it in accordance with the DBM required forms and submit it on the required date. The reports required, such as the Estimates of Revenues and Estimates of Expenditures, were not prepared by the Agency. Neither target revenues that are expected to be collected for the current year were not set by the Agency nor estimates for its expenditures was made by the District.

The non-preparation of the budget reports will affect the Agency’s ability in allocating its resources effectively by assessing which object of expenditures would be given priority and which can be avoided. Further, the financial performance of the Agency could not be assessed due to the absence of the budget reports.

**Recommendation:**

We recommended that Management prepare its Corporate Operating Budget embodying estimates of revenues and expenditures that would serve as a guide in its operations.

**Management Comment:**

It is already a practice of the management to prepare a Corporate Operating Budget for the following year. The budget presentation is usually deliberated on the last quarter of the current year and most likely approved in the month of December. Since CY 2015, a copy of the Corporate Operating Budget (COB) is being submitted to DBM Main Office.

1. **Procurement for the construction materials with an estimated budget of P2,285,153.00 for the Construction of the Two-Storey Office Building was conducted through Shopping, contrary to the guidelines prescribed by GPPB through Resolution No. 018-2006 dated December 6, 2006.**

Item 3.5, Annex “A” of GPPB Resolution No. 018-2006 specifically provides that:

*“Procurement of tools and construction equipment shall be subject to the rules on public bidding.”*

Although the provision states “tools and construction equipment”, it actually includes the construction materials used for infrastructure projects of the government as clarified by GPPB through NPM 061-2007 which provides:

*“Alternative methods of procurement are resorted to only in highly exceptional cases as set forth under R.A. 9184 and its IRR-A, subject to the approval of the head of the procuring entity (Section 48 of R. A. 9184).*

*Hence, the material component of the Project should be procured through competitive bidding, unless the conditions provided under Section 52 of the IRR-A are present, as recommended by the BAC and duly approved by the head of the procuring entity.”*

The District completed in 2017 its project: Proposed Two Storey Office Building, implemented through construction by administration. Review of the disbursements made to pay for the procurement of various construction materials, we noted that procurement was made through Shopping, with several Purchase Orders prepared for only one or two materials, with some of the payments even disbursed out of the Petty Cash Fund of Ms. Genalin A. Amantiad.

It’s the responsibility of every government office to ensure that procurement should be competitive and transparent; hence, the first suggested mode of procurement is public bidding. Also, the estimated budget / approved budget for the contract (ABC) is P2,285,153.00, way beyond the maximum amount allowed of P1,000,000.00 to be procured through shopping.

Shopping of various construction materials on a piecemeal basis is both inefficient and costly. The District wasted significant amount of time and money for the preparation of documents and canvass of prices to suppliers, which could have been reduced had the District opted to conduct a public bidding. Canvass for the prices extended only to three suppliers also does not guarantee the District of the lowest and most responsive price.

**Recommendation:**

We recommend to the Management through the Procurement Unit and Bids and Awards Committee to maximize the purpose of preparing Annual Procurement Plan and carefully plan for the procurement of the needs of the District, in such manner that will not violate the allowable mode of procurement for each purchase.

**Management Comment:**

The Bids and Awards Committee(BAC) conducted a public bidding for the supply of various construction materials with an estimated budget of P2.285 million. The whole process was observed and posted to the PhilGEPS, Bacolod Water District Website and in three (3) conspicuous places. The process was being done twice in the months of November 2017 and December 2017. There was a failure on the 1st Public Bidding as well on the second public bidding as declared by BAC since no interested bidder submitted.

This project was done by Administration and the funds came from Land Bank of the Philippines, thru loan. The first release was 15% and the succeeding releases thru progress billing.

During the procurement of various construction materials the amount released will be the basis for the procurement as well as labor components.

1. **The District failed to withhold the mandatory 5% Final Vat and 2% Income Tax on its payment to New Queenbee Security Services, Inc. for the Security Services of the District, contrary to Revenue Regulations 4-2007 and 2-98.**

Section 22, Revenue Regulation No. 4-2007 dated February 7, 2007 which amends Section 4.114-2 (Withholding of VAT on Government Money Payments) of RR No. 16-2005 provides that:

*“The government or any of its political subdivisions, instrumentalities or agencies including government-owned or controlled corporations (GOCCs) shall, before making payment on account of each purchase of goods and/or services taxed at 12% VAT pursuant to Sec. 106 and 108 of the Tax Code, deduct and withhold a final VAT due at the rate of 5% of the gross payment thereof.”*

While Section 3(N) of Revenue Regulation No. 17-2003 dated March 31, 2003 which amends Section 2.57.2 of RR No. 2-98, provides that:

*“Income payments, except any casual or single purchase of P10,000.00 and below, which are made by a government office, national or local, including barangays, or their attached agencies or bodies, and government-owned or controlled corporations, on their purchase of goods and purchase of services from local/resident suppliers – Two percent (2%).”*

New Queenbee Security Services, Inc. is the current security service provider of Bacolod Water District, providing two (2) security guards in shift, at a contract price of P7,000 per quincena.

From these payments, we observed that the District did not withhold the required 5% Final VAT and the 2% Creditable Income Tax. Inquiry with the Unit Head of Accounting, Ms. Alma Maglana discloses that General Manager Noel Resabal gave the instruction not to withhold any tax from the payment to the Security Agency considering the immateriality as to amount of the subjected payments.

GM Resabal may have considered P7,000.00 quincena payment as casual or single payment falling within the threshold of P10,000.00 as prescribed in RR No. 2-98. Payment for Security Services are made on a regular basis and should not be construed as a casual payment, nor should it be considered as a single payment less than P10,000.00 as the cumulative cost of security services for one taxable/calendar year would summed up to P168,000.00.

The failure by the District to withhold the required 5% Final VAT and 2% Creditable Income tax deprives the national government of an assured collection of at least P10,500 for the year or P437.50 every quincena-payment computed as follows:

Security Services per Quincena - P7,000.00 /1.12%

Tax base (VAT exclusive) - P6,250.00

5% Final VAT + 2% Income Tax - x 7%

Tax to be withheld per payment - **P 437.50**

**Recommendation:**

We recommend to the Management through the Accounting unit to perform its responsibility as withholding agent and contribute to the revenue collection efforts of the national government by religiously withholding 5% Final VAT, and the 1% for Goods and 2% for Services’ Creditable Income Tax on its payment to suppliers and/or service providers.

**Management Comment:**

The Management made a representation to New Queen Bee Security, Inc. regarding the mandatory withholding of taxes. The accounting unit will strictly withhold 5% Final VAT and 1% for Goods and 2% for Services ‘Creditable Income Tax on every payment to suppliers of goods and services.

1. **The Agency did not procure common-use supplies and materials from the Procurement Service (PS), which is not in compliance with the provisions of Administrative Order No. 17.**

Section 1 of Administrative Order No. 17 dated July 28, 2011 provides that:

*" xxx. that all government agencies shall procure their common-use supplies from the PS.”*

Likewise, Section 4 of the same Order states that:

*"Common-use supplies shall be procured directly from the PS or its depots without need of public bidding as provided in Section 53.5 of the Implementing Rules and Regulations (IRR) of R.A. 9184."*

The said Administrative Order clearly provides that the purchase of common-use supplies from the PS is mandatory for all government agencies.

In our audit of the disbursements, it was noted that the Agency did not procure common-use supplies and materials from the PS.

**Recommendation:**

We recommended that Management start procuring common-use supplies and materials from the Procurement Service pursuant to the provisions of Administrative Order No. 17. In cases that these items are not available from the PS, the management must secure a certification that said supplies and materials are not available before procuring the same from other suppliers. The procurement of supplies regularly needed by the Agency should be done on a quarterly basis.

**Management Comment:**

The District has been purchasing common-use supplies and materials from the Procurement Service (PS) in Cagayan De Oro City but it was temporarily stopped due to following reasons;

1. Several items were not available.

2. The travelling allowance, fuel cost and other incidental expenses were costly considering that the agency was not able to purchase most of the needed supplies.

3. The procuring agency must arrive before 10:00 in the morning otherwise the items available will be released on the next following days. Travel from Bacolod to Cagayan de Oro makes it difficult for the agency to arrive before 10:00 AM.

1. **VALUE FOR MONEY AUDIT**
2. **The Agency did not undertake preliminary actions on the development of a Water Safety Plan as required in LWUA Memorandum Circular No. 010.14 and DOH Administrative Order No. 2014-0027, as a consequence, risks that threaten the safe quality of drinking water and public health may not have been properly addressed by appropriate control measures.**

LWUA Memorandum Circular No. 010.14 provides that:

*“The Department of Health (DOH) has issued on September 4, 2014, Administrative Order (AO) No. 2014-0027 declaring the development and implementation of Water Safety Plan (WSP) by all drinking-water service providers as a national policy for drinking-water quality management. In support of the objectives of the DOH and in compliance with the AO, LWUA is*

1. *Adopting the 11-step process of the World Health Organization (WHO) as the main guideline in developing WSP for all WD and RWSA; and*
2. *Directing all water districts and RWSA to develop and implement WSP and comply with the provisions of DOH AO No. 2014-0027.”*

Also, Item VI.A of DOH Administrative Order No. 2014-0027 dated September 4, 2014 provides the guidelines that:

*“All drinking water service providers shall develop water safety plan for their water supply systems within three years after the issuance of this Order and ensure its implementation after its approval.”*

Water supply system is vulnerable to contamination due to extreme weather events brought by global warming and climate change and occurrences of disasters. These threaten the safe quality of water, thus, DOH in accordance with its mandate of being primarily responsible for the formulation, planning, implementation and coordination of policies and programs in the field of health, strongly supports the application of a risk management approach, known as Water Safety Plan, by all water service providers.

The WSP is a management tool that can be applied to all types of water systems to ensure the safe quality of supplied water. The WSP uses a comprehensive risk assessment and risk management approach encompassing all steps in water supply from water source to consumer.

Inquiry with Management revealed that the Agency did not undertake the initial steps in the development of the Water Safety Plan as required by the above stated provisions.

The Agency has its water sample undergo a monthly bacteriological test to ensure that the water supply passes the requirements set by the Philippine National Standards for Drinking Water for bacteriological quality, however, this will not guaranty a 100% safe quality of water due to the uncontrolled risk brought by current environmental changes, human activities and natural events that threaten the safe quality of water.

The WSP aims to prevent or minimize contamination of water source, remove contamination thru treatment and prevent re-contamination during storage, distribution and handling of drinking-water. The preparation and development of the WSP, together with the application of the appropriate control measures, will properly address the risks that threaten the safe quality of water and public health.

**Recommendation:**

We recommended that Management carry out the necessary steps in the preparation and development of a Water Safety Plan this CY 2017 as provided under DOH Administrative Order No. 2014-0027.

**Management Comment:**

The Management consulted Tubod-Baroy Water District regarding this matter.

1. **The Agency did not comply with Section 4 of the Implementing Rules and Regulations of Republic Act 10121 and Section 35 of the General Appropriations Act (GAA) for FY 2017 to implement programs, projects and activities to address the adverse effects of climate change and disaster risk reduction and mitigation.**

Section 4 of the Implementing Rules and Regulation of Republic Act 10121 (An Act Strengthening the Philippine Disaster Risk Reduction and Management System, Providing for the National Disaster Risk Reduction and Management Framework and Institutionalizing the National Disaster Risk Reduction and Management Plan, Appropriating Funds therefor and for Other Purposes) provides for the scope of disaster risk reduction and mitigation which shall be at all levels of the government. Moreover, in compliance with the above provision, Section 35 of 2017 General Appropriations Act mandates that the agencies of the government shall implement programs, projects and activities designed to enhance climate change adaptation and mitigation.

Inquiry revealed that Management has no definite plans, programs and projects designed to address disasters, or to mitigate the adverse effects of it due to climate change in their area or jurisdiction contrary to the above-mentioned provisions.

Although Management and other agency personnel was invited by the provincial / local government in consultative meetings, symposia and the likes for disaster risk reduction and mitigation, it seems that the importance of having concrete plans, programs and projects to address disasters due to climate change was not emphasized.

Water is indispensable for human survival. Disasters which have stricken the nation during recent years have shown that water supply was the first to be affected and local water districts as a forefront agency should provide for alternative source of water in cooperation with the local government unit where they belong should disasters strike.

**Recommendation:**

We recommend that plans, programs, projects and other activities should be implemented to address this need in compliance with Section 4 of the IRR of RA 10121 and Section 35 of the FY 2017 General Appropriations Act.

**Management Comment:**

The Management agreed to coordinate with the Local Government Unit of Bacolod regarding plans, programs, project and other activities to address the adverse effects of climate change and disaster risk reduction and mitigation.

**PART III –**

**STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS**

**PART III - STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS**

We made a follow-up on the action taken by the District to implement the recommendations of CY 2016 AAR and noted the following:

|  |  |
| --- | --- |
| ***Status of Implementation*** | ***No. of Recommendations*** |
| Fully Implemented | 4 |
| Partially Implemented | 0 |
| Not Implemented | 0 |

| **Reference** | **Audit Observations** | **Audit Recommendations** | **Status of Implementation** |
| --- | --- | --- | --- |
| 2016 AAR Finding No. 1 | **Procurement of various supplies and equipment thru shopping or small-value procurement totaling P23,816.60 for the period January to June 2016 were not awarded to the lowest quotation, thus, defeating the purpose of promoting competitiveness, economy and efficiency in the government procutement.** | We have recommended that Management strictly comply with the provisions of R.A. 9184 and with GPPB Resolution No. 09-2009 which prescribes the guidelines for shopping and small-value procurement. Submit justification from the BAC why the award was not made to the lowest quotation. | FULLY IMPLEMENTED |
| 2016 AAR Finding No. 2 | **Expenditures for the month of December 2015 totaling P21,931.64 which were paid on January 2016 were not recognized as Accounts Payable in the District’s books of accounts in CY 2015, contrary to Sections 112 and 119 of P.D. 1445, Section 4(a), Chapter 2, Volume I of the NGAS Manual, and Philippine Accounting Standards 1 (PAS 1).** | We have recommended that Management use accrual basis in recording assets, liabilities, income and expenses in compliance with the above rules and regulations. Instruct the Accounting Processor to ensure that all expenses or payables at the end of every calendar year shall be obligated in order to fairly present the financial statements as at year end. | FULLY IMPLEMENTED |
| 2016 AAR Finding No. 3 | **Franchise Tax for the months of January to August 2016 was understated by P7,148.72, as the tax paid by the District was based on collection of water sales only and not on all gross receipts contrary to Section 119 of R.A. 8424 or the Tax Reform Act of 1997.** | We have recommended that Management strictly observe the provisions of Section 119 of R.A No. 8424. Direct the accountant to use gross receipts to include all items of income collected as tax base in the computation of the two percent franchise tax to avoid underpayment of tax due. | FULLY IMPLEMENTED |
| 2016 AAR Finding No. 4 | **The accrual of liability for the earned leave benefits of employees was not provided by the district contrary to PAS 19 on the accounting for employee benefits.** | We recommend that the management shall provide annual budget for the earned leave benefits of the employees, and require the Human Resource Officer to furnish the Accounting Section with a copy of the schedule of earned leave credits of District personnel with the corresponding money value as basis in accounting of the accrued liability. | FULLY IMPLEMENTED |