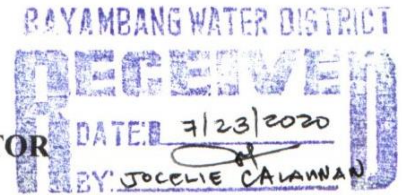




Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. I
OFFICE OF THE REGIONAL DIRECTOR
City of San Fernando, La Union
Tel. No. (072) 888-5780



July 21, 2020

THE BOARD OF DIRECTORS

Bayambang Water District
Bayambang, Pangasinan

Dear Sirs/Mesdames,

We transmit herewith the report on the financial and compliance audit on the accounts and operations of Bayambang Water District for the year ended December 31, 2019, in compliance with Section 2, Article IX-D of the Constitution of the Philippines and pertinent sections of Presidential Decree (PD) No. 1445.

The audit was conducted on a test basis covering the accounts and operations of Bayambang Water District for the calendar year 2019. The examination includes review of operating procedures, interview with concerned officials and employees, verification, reconciliation and analysis of accounts, and such other procedures considered necessary. The audit also aimed to: (a) verify the level of assurance that may be placed on management assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine extent of implementation of prior years' audit recommendations.

The report consists of three parts: Part I-Audited Financial Statements, Part II – Audit Observations and Recommendations and Part III-Status of Prior Years' Audit Recommendations. Management's comments were included in the report, where appropriate.

We rendered a qualified opinion on the presentation of financial statements because of the following:

1. The existence, completeness, valuation and accuracy of the recorded Property, Plant and Equipment (PPE) account with net carrying amount of P179,953,630.22 were doubtful because (a) physical inventory was not conducted contrary to Section 58 of PD 1445; (b) property records were not maintained contrary to Sections 111 and 114 PD 1445; and (c) depreciation expenses were erroneously computed, thereby affecting the fair presentation of the financial statements; and
2. The accuracy of the Accounts Receivables (AR) amounting to P11,013,117.46 could not be ascertained due to non-reconciliation between the General Ledger (GL) and Subsidiary Ledger (SL) balances contrary to Paragraph 2.18 of the Conceptual Framework for Financial Reporting thereby, affecting the fair presentation of the Financial Statements.

Other significant observations and recommendations are the following.

1. Nine parcels of lot were not supported with Certificates of Title, contrary to Section 39 (2) of PD 1445, thus, posing the risk of third party claims.

We reiterated our recommendation that Management continue to exhaust all efforts in securing the Certificates of Title of the lots to support claims of ownership; and to locate records to support the entries recorded in the Land account of the District in order to ascertain the accuracy of the reported book value of Land in the financial statements.

2. Copies of contracts, purchase orders and the like were not submitted to the Office of the Auditor contrary to Sections 3.1.1 and 3.2.1 of COA Circular No. 2009-001 thus, precluded the timely auditorial review on various purchases.

We recommended that the District submit copies of contract and/or purchase orders and all supporting documents to the Office of the Auditor within five (5) working days from the date of issuance for the timely review.

3. The District's procurement of motorcycle in the amount of P81,691.93 was not supported with an approved Request for the Acquisition of Government Motor Vehicles contrary to Administrative Order (AO) No. 14 – *Consolidating and Rationalizing the Rules on the Acquisition of Government Motor Vehicles, Adopting a Centralized System of Procurement Therefor, and for Other Purposes* dated December 10, 2018 thus, the acquisition was not authorized.

We reiterated our recommendation that the District submit the Approved Request for the Acquisition of Motor Vehicles as delineated under AO No. 14.

4. The District's Non-Revenue Water (NRW) for CY 2019 is 3.20% over and above the tolerable rate of 20% as prescribed under Local Water Utilities Administration (LWUA) Resolution No. 444 series of 2009, hence, affected its operating and revenue generation efficiency, a manifestation of inadequacies in the control, monitoring of water production, distribution and water billing to the disadvantage of the District.

We recommended that the District revisit the existing strategies/measures in reducing water losses and evaluate its efficiency and effectiveness, intensify the strategies undertaken, and devise/install a more effective and efficient measure to manage water losses in order to significantly reduce the high level of NRW to the tolerable rate of 20%.

The other findings and observations are discussed in detail in the Observations and Recommendations portion of this report.

We request that the comments and observations and recommendations contained in the said report be fully addressed and we would appreciate being informed of the action taken in this regard within sixty (60) days from receipt hereof, pursuant to Section 99 of the General Provisions of Republic Act No. 11260, otherwise known as the General

Appropriations Act of 2019, by accomplishing the Agency Action Plan and Status of Implementation attached herewith.

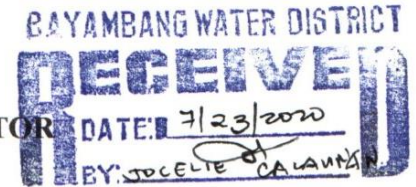
We acknowledge the cooperation extended to the audit team by the officials and staff of that District.

Very truly yours,


MICHAEL R. BACANI
Regional Director



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. I
OFFICE OF THE REGIONAL DIRECTOR
City of San Fernando, La Union
Tel. No. (072) 888-5780



July 21, 2020

MR. FRANCIS J. FERNANDEZ

General Manager
Bayambang Water District
Bayambang, Pangasinan

Dear GM Fernandez,

We transmit herewith the report on the financial and compliance audit on the accounts and operations of Bayambang Water District for the year ended December 31, 2018, in compliance with Section 2, Article IX-D of the Constitution of the Philippines and pertinent sections of Presidential Decree (PD) No. 1445.

The audit was conducted on a test basis covering the accounts and operations of Bayambang Water District for the calendar year 2019. The examination includes review of operating procedures, interview with concerned officials and employees, verification, reconciliation and analysis of accounts, and such other procedures considered necessary. The audit also aimed to: (a) verify the level of assurance that may be placed on management assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine extent of implementation of prior years' audit recommendations.

The report consists of three parts: Part I-Audited Financial Statements, Part II – Audit Observations and Recommendations and Part III-Status of Prior Years' Audit Recommendations. Management's comments were included in the report, where appropriate.

We rendered a qualified opinion on the presentation of financial statements because of the following:

1. The existence, completeness, valuation and accuracy of the recorded Property, Plant and Equipment (PPE) account with net carrying amount of P179,953,630.22 were doubtful because (a) physical inventory was not conducted contrary to Section 58 of PD 1445; (b) property records were not maintained contrary to Sections 111 and 114 PD 1445; and (c) depreciation expenses were erroneously computed, thereby affecting the fair presentation of the financial statements; and
2. The accuracy of the Accounts Receivables (AR) amounting to P11,013,117.46 could not be ascertained due to non-reconciliation between the General Ledger (GL) and Subsidiary Ledger (SL) balances contrary to Paragraph 2.18 of the Conceptual Framework for Financial Reporting thereby, affecting the fair presentation of the Financial Statements.

Aside from the audit observations which were the bases for the qualified opinion, other significant observations and recommendations are the following:

1. Nine parcels of lot were not supported with Certificates of Title, contrary to Section 39 (2) of PD 1445, thus, posing the risk of third party claims.

We reiterated our recommendation that Management continue to exhaust all efforts in securing the Certificates of Title of the lots to support claims of ownership; and to locate records to support the entries recorded in the Land account of the District in order to ascertain the accuracy of the reported book value of Land in the financial statements.

2. Copies of contracts, purchase orders and the like were not submitted to the Office of the Auditor contrary to Sections 3.1.1 and 3.2.1 of COA Circular No. 2009-001 thus, precluded the timely auditorial review on various purchases.

We recommended that the District submit copies of contract and/or purchase orders and all supporting documents to the Office of the Auditor within five (5) working days from the date of issuance for the timely review.

3. The District's procurement of motorcycle in the amount of P81,691.93 was not supported with an approved Request for the Acquisition of Government Motor Vehicles contrary to Administrative Order (AO) No. 14 – *Consolidating and Rationalizing the Rules on the Acquisition of Government Motor Vehicles, Adopting a Centralized System of Procurement Therefor, and for Other Purposes* dated December 10, 2018 thus, the acquisition was not authorized.

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We recommended that the District revisit the existing strategies/measures in reducing water losses and evaluate its efficiency and effectiveness, intensify the strategies undertaken, and devise/install a more effective and efficient measure to manage water losses in order to significantly reduce the high level of NRW to the tolerable rate of 20%.

The other findings and observations are discussed in detail in the Observations and Recommendations portion of this report.

We request that the comments and observations and recommendations contained in the said report be fully addressed and we would appreciate being informed of the action

taken in this regard within sixty (60) days from receipt hereof, pursuant to Section 99 of the General Provisions of Republic Act No. 11260, otherwise known as the General Appropriations Act of 2019, by accomplishing the Agency Action Plan and Status of Implementation attached herewith.

We acknowledge the cooperation extended to the audit team by the officials and staff of that District.

Very truly yours,


MICHAEL R. BACANI
Regional Director



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

BAYAMBANG WATER DISTRICT

Bayambang, Pangasinan

For the Year Ended December 31, 2019

EXECUTIVE SUMMARY

A. INTRODUCTION

Bayambang Water District was created by virtue of Sangguniang Bayan Resolution No. 10 dated March 8, 1980. It was then issued with Conditional Certificate of Conformance No. 119 on June 30, 1980 making it eligible to avail comprehensive assistance program from the Local Water Utilities Administration (LWUA).

Classified by LWUA as Category “C” effective March, 2012, Bayambang Water District is serving 11,289 active concessionaires in 50 of the 77 barangays of the Municipality. It has nine pumping stations located at the following:

- Zone V, Poblacion
- Sapang
- Beldet, Tamaro
- Mangayao
- Bacnono
- Tambac
- Nalsian Norte
- Tamaro
- Buenlag 2nd

Bayambang Water District is being led by General Manager Francis J. Fernandez who is duly assisted by 44 permanent, 10 casual and 4 Job-Order employees. Its policy-making body is its Board of Directors (BOD) headed by Dr. Francisco B. Zaragoza.

B. FINANCIAL HIGHLIGHTS

B1. Comparative Financial Position

As of December 31, 2019, there was an increase of 8.00% in assets, an increase of 7.03% in liabilities and an increase of 9.24% in equity/net assets, summarized as follows:

Particulars	2019	2018	Increase (Decrease)	
			Amount	%
Assets	P206,848,270.62	P191,522,150.53	P15,326,120.09	8.00
Liabilities	114,529,807.01	107,010,176.59	7,519,630.42	7.03
Equity/Net Assets	92,318,463.61	84,511,973.94	7,806,489.67	9.24

B2. Comparative Results of Operation

For CY 2019, the District registered a 67.95% increase of net income tabulated as follows:

Particulars	2019	2018	Increase (Decrease)	
			Amount	%
Income	P 76,718,943.46	P 62,211,337.78	P 14,507,605.68	23.32
Expenses	62,701,820.85	53,865,315.54	8,836,505.31	16.40
Net Income	P 14,017,122.61	P 8,346,022.24	P 5,671,100.37	67.95

B3. Budget Utilization

The District expended 27.95% less of the budgeted expenditures for CY 2019 tabulated as follows:

Particulars	Budget	Utilization	Difference	
			Amount	%
Personnel Services	P 21,590,484.08	P19,794,398.82	P 1,796,085.26	8.32
MOOE	32,826,360.62	27,749,678.35	5,076,682.27	15.47
Financial Expenses	9,036,313.16	9,500,525.81	(464,212.65)	(5.14)
Capital Expenditures	48,730,000.00	23,778,435.28	24,951,564.72	51.20
Total	P112,183,157.86	P80,823,038.26	P31,360,119.60	27.95

C. SCOPE OF AUDIT AND METHODOLOGY

A financial and compliance audit was conducted on the accounts and operations of the Bayambang Water District for the year ended December 31, 2019. The audit consisted of review of the operating procedures, inspection of programs and projects, interview with concerned officials and employees, verification, reconciliation and analysis of accounts and such other procedures deemed necessary.

D. INDEPENDENT AUDITOR'S REPORT

The auditor rendered a qualified opinion on the presentation of financial statements because of the following reasons:

1. The existence, completeness, valuation and accuracy of the recorded Property, Plant and Equipment (PPE) account with net carrying amount of P179,953,630.22 were doubtful because (a) physical inventory was not conducted contrary to Section 58 of Presidential Decree (PD) No. 1445; (b) property records were not maintained contrary to Sections 111 and 114 PD 1445; and (c) depreciation expenses were erroneously computed, thereby affecting the fair presentation of the financial statements; and
2. The accuracy of the Accounts Receivables (AR) amounting to P11,013,117.46 could not be ascertained due to non-reconciliation between the General Ledger (GL) and Subsidiary Ledger (SL) balances contrary to Paragraph 2.18 of the Conceptual Framework for Financial Reporting thereby, affecting the fair presentation of the Financial Statements.

E. SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

Other than the bases for the qualified opinion, presented below are the other significant observations with corresponding recommendations which were discussed with the concerned agency officials during the exit conference. Corresponding comments are incorporated in Part II of the report:

1. Nine parcels of lot were not supported with Certificates of Title, contrary to Section 39 (2) of PD 1445, thus, posing the risk of third party claims.

We recommended that Management continue to exert efforts in securing the Certificates of Title of the lots to support claims of ownership; and to locate records to support the entries recorded in the Land account of the District in order to ascertain the accuracy of the reported book value of Land in the financial statements.

2. Copies of contracts, purchase orders and the like were not submitted to the Office of the Auditor contrary to Sections 3.1.1 and 3.2.1 of COA Circular No. 2009-001 thus, precluded the timely auditorial review on various purchases.

We recommended that the District submit copies of contract and/or purchase orders and all supporting documents to the Office of the Auditor within five (5) working days from the date of issuance for the timely review.

3. The District's procurement of motorcycle in the amount of P81,691.93 was not supported with an approved Request for the Acquisition of Government Motor Vehicles contrary to Administrative Order (AO) No. 14 – *Consolidating and Rationalizing the Rules on the Acquisition of Government Motor Vehicles, Adopting a Centralized System of Procurement Therefor, and for Other Purposes* dated December 10, 2018 thus, the acquisition was not authorized.

We recommended that the District submit the Approved Request for the Acquisition of Motor Vehicles as delineated under AO No. 14.

4. The District's Non-Revenue Water (NRW) for CY 2019 is 3.20% over and above the tolerable rate of 20% as prescribed under Local Water Utilities Administration (LWUA) Resolution No. 444 series of 2009, hence, affected its operating and revenue generation efficiency, a manifestation of inadequacies in the control, monitoring of water production, distribution and water billing to the disadvantage of the District.

We recommended that the District revisit the existing strategies/measures in reducing water losses and evaluate its efficiency and effectiveness, intensify the strategies undertaken, and devise/install a more effective and efficient measure to manage water losses in order to significantly reduce the high level of NRW to the tolerable rate of 20%.

F. TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

Presented below is the summary of audit suspensions, disallowances and charges of the District for CY 2019:

Particulars		CY 2019 Issuances	
-------------	--	-------------------	--

	Beginning Balance (12/31/2018)	NS/ND/NC	NSSDC	Ending Balance (12/31/2019)
Suspensions	P 72,0000.00	P1,154,134.74	P 72,000.00	P1,154,134.74
Disallowances	2,803,709.11	60,000.00	368,746.00	2,494,963.11
Charges	-	-	-	-
Total	P2,875,709.11	P1,214,134.74	P440,746.00	P3,649,097.85

G. STATUS OF PRIOR YEARS' AUDIT RECOMMENDATIONS

The status of implementation of prior years' audit recommendations embodied in the 2018 Annual Audit Report is presented below:

Status	No. of Recommendations for Implementation		Percentage of Implementation	
	2018	2017 and below	2018	2017 and below
Fully Implemented	11	-	68.75%	-
Partially Implemented	5	1	31.25%	100%
Not Implemented	-	-	-	-
Total	16	1	100%	100%

Details of the foregoing are presented in Part III of this report.

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PART I

AUDITED FINANCIAL STATEMENTS



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Bayambang Water District
Bayambang, Pangasinan

Qualified Opinion

We have audited the financial statements of Bayambang Water District, Bayambang, Pangasinan which comprise the statement of financial position as of December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Bases for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Bayambang Water District as of December 31, 2019 and its statement of comprehensive income and cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Bases for Qualified Opinion

As discussed in Part II of the report, the Auditor rendered a qualified opinion on the fairness of presentation of financial statements because of the following:

1. The existence, completeness, valuation and accuracy of the recorded Property, Plant and Equipment (PPE) account with net carrying amount of P179,953,630.22 were doubtful because (a) physical inventory was not conducted contrary to Section 58 of Presidential Decree (PD) No. 1445; (b) property records were not maintained contrary to Sections 111 and 114 PD 1445; and (c) depreciation expenses were erroneously computed, thereby affecting the fair presentation of the financial statements; and
2. The accuracy of the Accounts Receivables (AR) amounting to P11,013,117.46 could not be ascertained due to non-reconciliation between the General Ledger (GL) and Subsidiary Ledger (SL) balances contrary to Paragraph 2.18 of the Conceptual Framework for Financial Reporting thereby, affecting the fair presentation of the Financial Statements.

Key Audit Matters

Except for the matters described in the Bases for Qualified Opinion section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

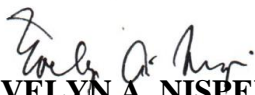
Those charged with governance are responsible for overseeing the District's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

COMMISSION ON AUDIT

By:


EVELYN A. NISPEROS
Supervising Auditor

July 15, 2020

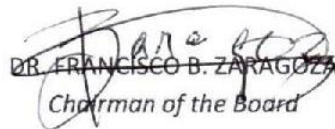


**STATEMENT OF MANAGEMENT’S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of the Bayambang Water District is responsible for the preparation of the financial statements as at December 31, 2019, 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 Bayambang Water District in accordance with the International Standards of Supreme Audit Institutions and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.


DR. FRANCISCO B. ZARAGOZA
Chairman of the Board

February 5, 2020
Date Signed


JOCELIE F. CALAUNAN
Sr. Corporate Accountant-C

February 5, 2020
Date Signed


FRANCIS J. FERNANDEZ
General Manager

February 5, 2020
Date Signed



**BAYAMBANG WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019
(With Comparative Figures for 2018)**

1. Agency Information

The creation of the water system of Bayambang which was later known as Bayambang Water Works and Sewerage System was conceptualized in 1952, but did not materialized. The idea of developing the water system was revived in 1957. The development of the system from local government administration to another was transferred to the newly created Bayambang Water District (BAYWAD) through a resolution authored by Municipal Councilor Calixto B. Camacho on March 8, 1980. In 1992, all water districts were declared as Government Owned and Controlled Corporations by the Supreme Court in the landmark case of Davao City Water District vs. Civil Service Commission.

As of December 31, 2019, the district has 11,289 active service connections with fifty eight (58) hardworking employees under the stewardship of Mr. Francis J. Fernandez as General Manager, whose overall management and supervision keeps the district's continuous growth.

The policy-making body of BAYWAD is composed of the following representing the sector opposite their names:

Name	Position	Sector	Term of Office
Dr. Francisco B. Zaragosa	Chairman	Education	January 1, 2017 to December 31, 2020
Mrs. Annie Fernandez	Vice-Chairman	Women	January 1, 2019 to December 31, 2024
Dr. Nicolas O. Miguel	Board Secretary	Business	January 1, 2019 to December 31, 2022
Mr. Marlon T. Nonato	Member	Civic	January 1, 2019 to December 31, 2024
Mr. Bernardo C. Jimenez	Member	Professional	August 5, 2019 to December 31, 2022

The operations of the water district started on October 5, 1979 pursuant to the provisions of the Presidential Decree No. 198 as amended by PD Nos. 768 and 1479, otherwise known as the Provincial Utilities Act of 1973. The BAYWAD is responsible for (a) acquiring, installing, improving, maintaining and operating water supply and distribution systems for domestic, industrial, municipal and agricultural uses for residents and lands within the boundaries of such district, (b) providing, maintaining, and operating wastewater collection, treatment and disposal facilities, and (c) conducting such other functions and operations and incidental to water resource development, utilization and disposal within such District.

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements of the District for the year ended December 31, 2019 have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The financial statements are presented in pesos, which is the functional and reporting currency of the District, except when otherwise stated. The accounting policies have been applied starting the year 2019.

Basis of Accounting

The financial statements are prepared using accrual basis in accordance with the Philippine Financial Reporting Standards (PFRS). Accounts were classified to conform to the Updated Revised Chart of Accounts for Government Corporations (2019) prescribed under COA Circular No. 2020-002 dated January 28, 2020.

Financial Instruments

Financial Assets

Initial recognition and measurement

Financial assets are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The District determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the District commits to purchase or sell the asset.

The District's financial assets include: cash and short-term deposits and trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the

effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Derecognition

The District derecognizes a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets when:

- a. The rights to receive cash flows from the asset have expired or is waived
- b. The District has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either: (a) the District has transferred substantially all the risks and rewards of the asset; or (b) the District has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The District assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a group of debtors are experiencing significant financial difficulty;
- Default or delinquency in interest or principal payments;
- The probability that debtors will enter bankruptcy or other financial reorganization; and
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the District first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the District determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and

collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in surplus or deficit. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or transferred to the District. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in surplus or deficit.

Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of PAS 32 and 39, and PFRS 37 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The District determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings.

The District's financial liabilities include trade and other payables, and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees of costs that are an integral part of the effective interest rate.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Contingent liabilities

The District does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The District does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the District in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash in bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the District.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the District.

Leases

Water District as lessee

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the District. Operating Lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

Property, Plant and Equipment

Recognition

An item is recognized as property, plant, and equipment (PPE) if it meets the characteristics and recognition criteria as a PPE.

The characteristics of PPE are as follows:

- tangible items;
- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

- The cost or fair value of the item can be measured reliably.

Measurement at Recognition

An item recognized as property, plant, and equipment is measured at cost.

A PPE acquired through non-exchange transaction is measured at its fair value as at the date of acquisition.

The cost of the PPE is the cash price equivalent or, for PPE acquired through non-exchange transaction its cost is its fair value as at recognition date.

Cost includes the following:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- expenditure that is directly attributable to the acquisition of the items; and
- initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Measurement after Recognition

After recognition, all property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

When significant parts of property, plant and equipment are required to be replaced at intervals, the District recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized as expense in surplus or deficit as incurred.

Depreciation

Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

Initial Recognition of Depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation Method

The straight line method of depreciation is adopted unless another method is more appropriate for agency operation.

Estimated Useful Life

The District uses the Schedule on the Estimated Useful Life of PPE by classification prescribed by COA.

The District uses a residual value equivalent to at least five percent (5%) of the cost of the PPE.

Impairment

An asset's carrying amount is written down to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable service amount.

Derecognition

The District derecognizes items of property, plant and equipment and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.

Intangible Assets

Intangible asset: an identifiable non-monetary asset without physical substance. An asset is a resource that is controlled by the entity as a result of past events (for example, purchase or self-creation) and from which future economic benefits (inflows of cash or other assets) are expected.

Three critical attributes of an intangible asset are:

- identifiability
- control (power to obtain benefits from the asset)
- future economic benefits (such as revenues or reduced future costs)

Recognition

An item is recognized as intangible assets, whether purchased or self-created (at cost) if, and only if:

An item of PPE is recognized as an asset if:

- It is probable that the future economic benefits that are attributable to the asset will flow to the entity;
- and the cost of the asset can be measured reliably.

If an intangible item does not meet both the definition of and the criteria for recognition as an intangible asset, the expenditure on this item is to be recognized as an expense when it is incurred.

Measurement at Recognition

Intangible assets are initially measured at cost.

Measurement after Recognition

This District must choose either the cost model or the revaluation model for each class of intangible asset.

Cost model: After initial recognition intangible assets should be carried at cost less accumulated amortization and impairment losses. [PAS 38]

Revaluation model: Intangible assets may be carried at a revalued amount (based on fair value) less any subsequent amortization and impairment losses only if fair value can be determined by reference to an active market.

Classification of intangible assets based on useful life:

Indefinite life: no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Finite life: a limited period of benefit to the entity.

Amortization

The depreciable amount of intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. An intangible asset with an indefinite useful life should not be amortized but should be assessed for impairment. The amortization charge for each period is recognized as expense unless it is included in the cost of another asset.

Initial Recognition of Amortization

Amortization of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Amortization Method

The amortization method to be applied shall be the Straight-Line Method unless a pattern in which the asset's future economic benefits are expected to be consumed by the entity can be determined reliably.

Estimated Useful Life

The District considers the following factors in determining the useful life of an intangible asset:

- a.) The expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;
- b.) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
- c.) Technical, technological, commercial or other types of obsolescence;
- d.) The stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
- e.) Expected actions by competitors or potential competitors;
- f.) The level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity's ability and intention to reach such a level;
- g.) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
- h.) Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

The District uses a residual value equivalent to zero (0%) of the cost of the intangible asset.

Impairment

An asset's carrying amount is written down to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable service amount.

Derecognition

The District derecognizes items of intangible asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.

Impairment of Non-Financial Assets

Impairment of cash-generating assets

At each reporting date, the District assesses whether there is an indication that an asset maybe impaired. If any indication exists, or when annual impairment testing for an asset is required, the District estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or the cash-generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining air value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of financial performance in those expense categories consistent with the nature of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the District estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in surplus or deficit.

Impairment of non-cash-generating assets

The District assesses at each reporting date whether there is an indication that a non-cash generating asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the District estimates the asset's recoverable

service amount. An asset's recoverable service amount is the higher of the non-cash generating asset's fair value less costs to sell and its value in use.

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount.

In assessing value in use, the District has adopted the depreciation replacement cost approach. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset. In determining fair value less costs to sell, the price of the assets in a binding agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributed to the disposal of the asset is used. If there is no binding agreement, but the asset is traded on an active market, fair value less cost to sell is the asset 'market price less cost of disposal. If therein binding sale agreement or active market for an asset, the District determines fair valueless cost to sell based on the best available information.

For each asset, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the District estimates the asset's recoverable service amount. A previously recognized impairment loss is reversed only if there has been change in the assumptions used to determine the asset's recoverable service amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable service amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in surplus or deficit.

Revenue Recognition

Revenue from Non-Exchange Transactions

Transfers from other government entities

Transfers from other government entities are measured at fair value and recognized on obtaining control of the assets (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the District and can be measured reliably.

Revenue from Exchange Transactions

Rendering of services

The District recognizes revenue from rendering of services upon delivery or completion thereof. Revenue is recognized in the accounting period in which the services are rendered and when the associated expenses for a transaction are incurred. Revenue is

recognized only when it is probable that the economic benefits associated with the transactions will flow to the entity.

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.

The District corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred; or
- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

Borrowing Costs

Borrowing costs are recognized under the allowed alternative treatment, wherein costs are recognized as expense in the period in which they are incurred, except the costs that are directly attributable to the acquisition, construction, or production of a qualifying asset which are recognized as part of the cost of the asset. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further, borrowing costs are charged to the statement of financial performance.

Employee Benefits

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

The District recognizes the undiscounted amount of short term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

The District recognizes expenses for accumulating compensated absences when these were paid (commuted or paid as terminal leave benefits). Unused entitlements that have accumulated at the reporting date were recognized as expense. Non-accumulating compensated absences, like special leave privileges, were not recognized.

Related Parties

The District regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the District, or vice versa. Members of key management are regarded as related parties and comprise the Board of Directors and General Manager.

Service Concession Arrangements

The District analyses all aspects of service concession arrangements that it enters into determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the District recognizes that asset when, it controls or regulates the services the operator provides together with the asset, to whom it must provide them, and at what price. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the District also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

Budget Information

The annual budget is prepared on the modified cash basis, that is, all planned costs and income are presented in a single statement to determine the needs of the District. As a result of the adoption of the modified cash basis for budgeting purposes, there are bases, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as disclosures of the statement of comparison of budget and actual amounts. Explanatory comments are provided in the notes to the annual financial statements for reasons of overall growth or decline in the budget and the details of overspending or under spending on line items.

Significant Judgments and Sources of Estimation Uncertainty

Judgments

In the process of applying the District accounting policies, management has made judgments, which have the most significant effect on the amounts recognized in the financial statements.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The District based its assumptions and estimates on parameters available when the financial statement was prepared. However, existing circumstances and assumptions about future developments may change due to market

changes or circumstances arising beyond the control of the District. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- a. The condition of the asset based on the assessment of experts employed by the District;
- b. The nature of the asset, its susceptibility and adaptability to changes in technology and processes;
- c. The nature of the processes in which the asset is deployed; and
- d. Changes in the market in relation to the asset

Impairment of non-financial assets- cash-generating assets

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change, which may then impact management's estimations and require a material adjustment to the carrying value of tangible assets.

The District reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Cash-generating assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates of expected future cash flows are prepared for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Impairment of non-financial assets- non- cash generating assets

The District reviews and tests the carrying value of non-cash-generating assets when events or changes in circumstances suggest that there may be a reduction in the future service potential that can reasonably be expected to be derived from the asset. Where indicators of possible impairment are present, the District undertakes impairment tests, which require the determination of the fair value of the asset and its recoverable service amount. The estimation of these inputs into the calculation relies on the use estimates and assumptions.

Any subsequent changes to the factors supporting these estimates and assumptions may have an impact on the reported carrying amount of the related asset.

Held-to-maturity investments and loans and receivables

The District assesses its loans and receivables (including trade receivables) and its held-to-maturity investments at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the District evaluates the indicators present in the market to determine if those indicators are indicative of impairment in its loans and receivables or held-to-maturity investments.

Where specific impairments have not been identified, the impairment for trade receivables, held-to-maturity investments, and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

3. Cash and Cash Equivalents

3.1 Cash on Hand - This pertains to Petty Cash Fund in the amount of P10,000.00 that is operated under Imprest Fund System, and Cash Collecting Officer account which is the cash collections of Accountable Officers from 3:00 PM to 5:00 PM that will be deposited the following working day.

	2019	2018
Cash-Collecting Officers	₱ 43,913.42	₱ -
Petty Cash	1,604.17	10,000.00
	<u>₱ 45,517.59</u>	<u>₱ 10,000.00</u>

3.2 Cash in Bank- Local Currency

3.2.1 Current Account – This pertains to the current account maintained with the Land Bank of the Philippines (LBP) with Acct No. 1342-1043-19 and earns interest based on the prevailing bank deposit rates.

2019	2018
₱ 1,955,062.56	₱ 1,666,938.42

3.2.2 Savings Account– This pertains to the savings accounts in LBP and Rural Bank of Bayambang (RRB) with Acct Nos. 1341-1888-29 and 20-03959, respectively; and earns interest based on the prevailing bank deposit rates.

	2019	2018
RRB	₱ 501,249.31	₱ 499,092.05
LBP	3,737,963.51	1,435,939.43
	<u>₱ 4,239,212.82</u>	<u>₱ 1,935,031.48</u>

4. Receivables

- 4.1 Accounts Receivable (AR)** - This account represents the amount due from concessionaires arising from the water sales services. Accrued receivables from water consumed by concessionaires for the period of December 16-31, 2019, for meter reading and billing next month, amounted to P5,862,001.01.

	2019	2018
Accounts Receivable	₱ 11,013,117.46	₱ 5,706,503.04

- 4.2 Allowance for Impairment-AR** -This account is credited upon recognition of impairment which may arise from non-collection. Basis on the computation of said account is a policy for approval by the BAYWAD Board. Percentage allowance for Impairment – Accounts is as follows:

	2019	2018
Allowance for Impairment-AR	₱ (1,041,351.28)	₱ (802,435.20)

Age	Amount of AR	% of Allowance	Allowance for Impairment Loss
0-60 days	₱7,861,180.38	0%	₱ -
61 days - 1 year	91,840.37	1%	918.40
1 year up	3,060,096.71	34%	1,040,432.88
	Total		₱ 1,041,351.28
		Beginning Balance	802,435.20
		Impairment Loss, 2019	<u>₱ 238,916.08</u>

- 4.3 Receivables- Disallowances/Charges** - This account pertains to expenses disallowed by COA supported with Notice of Finality of Decision or those Notices of Disallowance that were not appealed within 180 days. The amount was previously recognized under Due from Officers and Employees account.

	2019	2018
Receivables- Disallowances/Charges	₱ 2,477,986.86	₱ -

- 4.4 Due from Officers and Employees** - This pertains to receivables from employees other than those in Receivables-Disallowances/Charges.

	2019	2018
Due from Officers and Employees	₱ 97,642.85	₱ 2,769,507.17

- 4.5 Other Receivables** - This refers to the account AR-Others that were erroneously used for transactions relating to materials held for sale to concessionaires for new connections. Correction was already made; hence, the account has zero balance.

	2019	2018
Other Receivables	₱ -	₱ 862,849.07

5. Inventories

5.1 Inventories Held for Consumption - This account represents the balance of inventories for consumption, which includes materials for connection and reconnection that remains with the BAYWAD as of balance sheet date.

	2019	2018
Office Supplies	₱ 12,392.17	₱ 20,562.08
Supplies and Materials for Water Systems Operations	4,598,627.09	-
	<u>₱ 4,611,019.26</u>	<u>₱ 20,562.08</u>

6. Prepayments

	2019	2018
Prepaid Insurance	₱ 48,845.18	₱ 33,815.55

This pertains to insurance paid but have not been incurred during the calendar year.

7. Other Investments

7.1 Sinking Fund - This account represents the amount of money reserved for future payment of loans. This is invested at the LBP with Account No. 1341-1827-82.

	2019	2018
Sinking Fund	₱2,246,520.43	₱ 2,069,046.71

8. Property, Plant and Equipment

8.1 Land - This account represents the costs incurred by the District in the purchases of land and other related initial costs spent to put the land into use. A total of P443,707.10 is added to cost of Land for the year 2019.

	2019	2018
Land	₱ 5,507,834.48	₱ 5,064,127.38

Note: Processing of Transfer of Titles is on-going.

8.2 Land Improvement

	2019	2018
Other Land Improvement	₱ 273,048.75	₱ -
Accumulated Depreciation	14,000.71	-
Net Value	<u>₱ 259,048.04</u>	<u>₱ -</u>

8.2.1 Other Land Improvement - This account represents improvements to Land that have a useful life and are not classified to land improvements provided by the revised chart of accounts.

8.2.2 Accumulated Depreciation- Other Land Improvement - Depreciation of other land improvement is accumulated in this account. See notes for depreciation.

8.3 Infrastructure Assets

8.3.1 Plant-Utility Plant in Service (UPIS) – The items included in this account are presented below :

	2019	2018
Wells	₱ 13,012,670.55	₱13,012,670.55
Supply Mains	340,071.60	340,071.60
Other Source of Supply-Plant	1,416,650.90	1,416,650.90
Other Pumping Plant	1,650.00	-
Reservoir and Tanks	7,293,472.97	7,233,752.97
Transmission and Distribution Mains	166,526,286.17	149,655,514.04
Fire Mains	-	-
Service Connection	1,015,845.80	985,321.80
Meters*		10,121,437.03
Meter Installation*		153,665.90
Hydrants	669,334.22	
Other Transmission and Distribution Mains	244,400.00	669,334.22
Total Costs	<u>₱190,674,048.11</u>	<u>₱183,588,419.01</u>

**Balance forwarded was reclassified to Retained Earnings while 2019 expenditures of that nature were recognized as Other Supplies and Material Expense.*

8.3.2 Accumulated Depreciation- UPIS – The beginning balance pertains to the computed accumulated depreciation of all PPE items, of which ₱3,814,125.40 had been reclassified to the appropriate account.

Beginning Balance	₱ 58,337,973.17
Depreciation Expense - UPIS	3,484,898.33
Total	₱ 61,822,871.50
Less: Amount reclassified to appropriate Accumulated Depreciation account*	3,814,125.40
Ending Balance	₱ 58,008,746.10

***Accumulated Depreciation:**

Buildings

₱ 901,214.99

Water Plant, Structures and Improvement	644,500.34
Water meters & Meter Installation	2,259,489.51
ICT Equipment	8,560.56
Total	<u><u>₱3,814,125.40</u></u>

8.4 Buildings and Other Structures

8.4.1 Buildings -This account represents the office building of the District which was purchased in June 2006.

	2019	2018
Buildings	₱ 2,000,000.00	₱ 2,000,000.00

8.4.2 Accumulated Depreciation- Buildings - Depreciation expenses were accumulated in this account for Buildings.

	2019	2018
Beginning Balance	₱ 901,214.99	₱ -
Depreciation for the year	47,500.00	-
Ending Balance	<u><u>₱ 948,714.99</u></u>	<u><u>₱ -</u></u>

See Notes on Accumulated Depreciation (8.3.2)

8.4.3 Water Plant, Structures and Improvement –The balance of P4,943,134.54 includes all materials, labor and other cost incurred for Pumping stations. Previously, the account used by the district was **Other Structures**.

8.4.4 Accumulated Depreciation - Water Plant, Structures, and Improvement -Depreciation expenses on Water Plant, Structures and Improvement are accumulated in this account.

	2019	2018
Beginning Balance	₱ 644,500.34	₱ -
Depreciation for the year	114,980.63	-
Ending Balance	<u><u>₱ 759,480.97</u></u>	<u><u>₱ -</u></u>

See Notes on Accumulated Depreciation (8.3.2)

8.5 Machinery and Equipment

This account consists of the following:

	2019	2018
Office Equipment	₱ 1,422,667.57	₱1,320,684.97
Accumulated Depreciation- Office Equipment	(83,654.58)	-

Net Value	<u>₱ 1,339,012.99</u>	<u>₱ 1,320,684.97</u>
ICT Equipment	₱ 353,813.40	₱ 1,289,000.00
Accumulated Depreciation- ICT Equipment	(26,682.45)	-
Net Value	<u>₱ 327,130.95</u>	<u>₱ 1,289,000.00</u>
Communication Equipment	₱ 15,348.00	₱ 15,348.00
Accumulated Depreciation- Communication Equipment	(972.04)	-
Net Value	<u>₱ 14,375.96</u>	<u>₱ 15,348.00</u>
Other Machinery and Equipment	₱29,894,458.98	₱27,418,714.53
Accumulated Depreciation- Other Machinery and Equipment	(1,846,053.46)	-
Net Value	<u>₱28,048,405.52</u>	<u>₱27,418,714.53</u>

Accumulated depreciation of the above machineries and equipment, except for ICT, are the same with the current year depreciation expenses due to non-availability of property records. The computed beginning balance of Accumulated Depreciation – ICT Equipment was ₱8560.56. See Notes on Accumulated Depreciation (8.3.2)

8.6 Transportation Equipment

	2019	2018
Motor Vehicles	₱ 6,999,595.22	₱6,879,138.12
Accumulated Depreciation- Motor Vehicles	(442,013.61)	-
Net Value	<u>₱ 6,557,581.61</u>	<u>₱6,879,138.12</u>

There was no identified beginning balance of Accumulated Depreciation due to non-availability of property records.

9. Intangible Assets

9.1 Computer Software - This account represents software installed in the computer that are used in generating information for District's use such as Accounting System and the like.

9.2 Accumulated Amortization - Computer Software – Intangible assets that are with determined finite life are amortized. Amortization on computer software is accumulated in this account. Estimated useful life of the software is 15 years.

10. Payables - This account consists the following:

10.1 Accounts Payable

2019	2018
₱ 11,975,443.01	₱6,675,557.30

Details of the 2019 balance are as follows:

Creditor	Amount
Cenpelco	₱ 1,069,862.66
Keysystem	682,741.05
Strongbiz	2,599,360.00
JB Sachi	936,600.50
J&N Furniture	94,589.00
Daiwei	100,000.00
Water Lab Water Testing Laboratory	57,900.00
Filipinas	1,530.00
Smart	24,143.73
ESN Const. & Trading	3,236,350.00
Constech	1,121,504.71
Ayson PD Construction	1,463,251.37
Padolina	7,665.00
Bless	527,520.00
F.E. Fianza Surveying Office	19,107.14
SPE Appliance Service Center	7,642.85
Other Suppliers	25,675.00
Total	₱11,975,443.01

10.2 Due to Officers and Employees

2019	2018
₱ 50,252.01	₱ 46,935.64

- 11. Loans Payable – Domestic** - This account represents the unpaid balance of loans from Local Water Utilities Administration and Land Bank of the Philippines.

Current Portion

	2019	2018
LWUA	₱ 745,884.00	₱745,884.00
LBP		
Loan 1	1,718,321.64	1,825,030.20
Loan 2	5,278,506.12	-
Total Current Portion	₱ 7,742,711.76	₱ 2,570,914.20

Non-Current Portion

	2019	2018
LWUA	₱14,917,571.06	₱15,663,455.06
LBP		
Loan 1	5,011,771.47	6,730,093.11
Loan 2	61,582,572.04	68,158,409.20
Total Non-Current Portion	<u>₱81,511,914.57</u>	<u>₱90,551,957.37</u>

12. Inter-Agency Payables

- 12.1 Due to BIR** - This account contains transactions relative to withholding taxes by this District.
- 12.2 Due to GSIS** - This account recognizes withholding of this District's employees premium payments and other payables for remittance to GSIS.
- 12.3 Due to Pag-IBIG** - This account recognizes withholding of this District's employees premium payments and other payables for remittance to HDMF.
- 12.4 Due to Philhealth** - This account recognizes withholding of this District's employees premium payments for remittance to Philhealth.
- 12.5 Due to NGAs** -This account recognizes cost of audit billed to this District for payment to COA and Btr.

NGA	Amount
Commission on Audit	₱31,500.00
Bureau of Treasury	172,609.27
Total	₱204,109.27

- 13. Customer's Deposit Payable** - This account represents the amount paid by reconnected customers as guarantee for non-payment of water bills.
- 14. Other Unearned Revenue/Income** -This account pertains to the balance of advance payments on materials for new connection that remains unreleased as at the balance sheet date.
- 15. Provisions**
- 15.1 Leave Benefits Payable** - This account is used for the monetary value of the earned leave credits of the Baywad employees. Basic pay used was based on the modified salary for implementation on 2020.
- 16. Other Payables** - This account represents the quarterly franchise tax payable on or before 25th of the following month after taxable quarter.

- 17. Government Equity** - Balance was forwarded from previous periods. No additional relative to this account was made this year.
- 18. Retained Earnings/(Deficit)** - Prior period errors on nominal accounts are credited/debited to this account. Also, performance of the District which is either an income or loss is closed to this account.

Particulars	Amount
Retained Earnings, January 1, 2019	₱81,976,912.79
Adjustments for 2019:	
Prior Period Errors	
Overage in collection for 2018	5,050.00
Insurance of Toyota Hilux (returned check)	2,961.51
Interest expense charged to Loans Payable	106,708.56
Documentary stamp tax on LBP loan	(462,171.00)
Disallowances 2017 to 2018	94,201.94
Purchase of pumping equipment on 2018	(10,000.00)
Accrued revenues from water billed for 2018	4,332,874.93
Accumulated Depreciation of water meter	2,259,849.51
Water meter reclassified to Other Supplies Expense	(10,121,437.03)
Monetized leave credits charged to Other Personnel Benefits	(328,036.42)
Sales Revenue for 2018	5,443,978.62
Cost of materials sold to concessionaires on 2018	(3,712,909.30)
Cost of materials used for rehabilitation of service lines	(639,573.45)
Prior years unrecorded issuance of materials	(1,213,597.96)
Unused leave credits of employees	(1,968,532.85)
Total Prior Year Errors	(6,210,632.94)
Net Income for 2019	14,017,122.61
Retained Earnings, December 31, 2019	<u>₱89,783,402.46</u>

19. Income

- 19.1 Other Service Income** - This includes registration fees, tapping fees, guarantee deposits and inspection fees.
- 19.2 Water Work System Fees** - This represents amount of Water Sales billed to concessionaires. Estimated revenue accrued from water consumed by concessionaires for the period of December 16-31, 2019, for meter reading and billing next month, amount to P5,862,001.01.
- 19.3 Interest Income**– This represents interest on deposits.
- 19.4 Fines and Penalties-Business Income**- This includes fines for illegal connections and penalties billed collections.

19.5 Other Business Income- This includes bid documents and payments of bulk water for electricity consume in pump stations. Income from sale of materials for new connection and reconnection is also incorporated here.

Particulars	Amount
Sale of materials used for connections	₱ 7,212,841.34
Cost of materials sold	(5,529,919.75)
Total	<u>₱ 1,682,921.59</u>

20. Expenses

20.1 Personnel Services -These are expenses with monetary value relative to salaries, allowances and other benefits received by the District's employees.

20.2 Maintenance and Other Operating Expenses - These represent those expenses incurred by the District necessary for its operation other than those in Personnel Expenses.

20.2.1 Other Supplies and Materials Expenses

Particulars	Amount
Water meter	₱2,478,591.00
Various expenses not directly attributable to other supplies expenses	30,201.92
Total	<u>₱2,508,792.92</u>

20.2.2 Taxes and Licenses

Details of the expense are as follows:

Particulars	Date	Amount
BIR Annual Registration Fee	1/17/2019	₱500.00
Franchise tax for the 1st Quarter	4/24/2019	307,223.05
Real Property Tax	7/19/2019	36,384.52
Franchise tax for the 2nd Quarter	7/22/2019	353,752.11
Franchise tax for the 3rd Quarter	10/29/2019	449,332.89
Franchise tax for the 4th Quarter	12/27/2019	348,423.27
Total Taxes and Licenses for 2019		<u>₱1,495,615.84</u>

20.2.3 Other Maintenance and Operating Expenses

Particulars	Amount
General pest control (rats, cockroaches, flies and mosquitoes)	₱ 15,000.00

Other expenses not directly attributable to other MOOE	532,872.29
Total	<u>₱547,872.29</u>

20.3 Non- Cash Expenses- These are expenses with no cash outflow, included herewith are the depreciation expenses, amortizations, impairment losses and the likes.

20.3.1 Depreciation Expense- Property, Plant and Equipment with useful lives of more than 1 year are depreciated. Method and procedure of computing depreciation expense is based on the approved policy by BAYWAD Board of Directors under Board Resolution No.41 S.2019.

20.3.2 Amortization of Intangible Assets- Intangible assets with definite life is amortized. Amortization is based on the approved policy by BAYWAD board of directors under Board Resolution No.41 S.2019.

21. Bayambang Water District is a withholding agent of taxes, which is compliant with Revenue Regulation (RR) No. 2-98 as amended by RR No. 11-2018, as amended by RR No. 1-2019. Moreover, the District is subject to Franchise Tax of 2% of Gross Water Bill.

PART II

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AND COMPLIANCE AUDIT

Doubtful Property, Plant and Equipment (PPE) Accounts

1. **The existence, completeness, valuation and accuracy of the recorded PPE accounts with net carrying amount of P179,953,630.22 were doubtful because (a) physical inventory was not conducted contrary to Section 58 of Presidential Decree (PD) No. 1445; (b) property records were not maintained contrary to Sections 111 and 114 PD 1445; and (c) depreciation expenses were erroneously computed, thereby affecting the fair presentation of the financial statements.**

- a. **No physical inventory conducted**

Section 58 of PD 1445 states the following:

“Audit of assets. The examination and audit of assets shall be performed with a view to ascertaining their existence, ownership, valuation and encumbrances as well as the propriety of items composing the respective asset accounts, determining their agreement with records; proving the accuracy of such records; ascertaining if the assets were utilized economically, efficiently and effectively; and evaluating the adequacy of controls over the accounts.”

Physical inventory-taking, being an indispensable procedure for checking the integrity of property custodianship, has to be regularly enforced. It is important to physically inspect the properties on a periodic basis to establish physical existence and to determine whether or not assets were completely recorded. Physical inventory is conducted to determine the condition of the properties which may be damaged, obsolete, unserviceable or impaired. Further, upon the completion of the physical inventory, a Report on the Physical Count of PPE (RPCPPE) shall be prepared by the agency and shall be reconciled with the property and accounting records to establish the accuracy of PPE.

While the audit team had validated several PPE items situated at the District’s office, it could be noted that there had been no inventory committee created to conduct physical inventory of PPE and that property records were not available.

- b. **Property records not maintained**

Section 111 of PD 1445 provides the following in the keeping of accounts:

(1)The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.

(2) The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.”

While Section 114 provides that subsidiary records shall be kept where necessary.

We have observed that property records were not maintained by the Property Officer while the Accountant had no complete subsidiary ledgers contrary to the above provisions, thus, internal control in the proper safeguarding of assets was not observed as items can be lost or damaged without being detected.

Had property records been maintained, these could have supported the net carrying amount of the following PPE accounts which constituted a significant portion of the total assets. Details are follows:

PPE Account	Amount
Land	P 5,507,834.48
Other Land Improvements	273,048.75
Plant-Utility Plant in Service	190,674,048.19
Buildings	2,000,000.00
Water Plant, Structure and Improvements	4,943,134.54
Office Equipment	1,422,667.57
Information and Communication Technology Equipment	353,813.40
Communication Equipment	15,348.00
Other Machinery and Equipment	29,894,458.98
Motor Vehicles	<u>6,999,595.22</u>
Total Costs	242,083,949.13
Accumulated Depreciation	<u>(62,130,318.91)</u>
Net Carrying Amount	<u>P 179,953,630.22</u>

The team also observed and noted that evidences supporting the cost of PPE acquired in prior years are no longer available since property records were not properly maintained, thus prevented the audit team from supposed random physical inventory on August 7, 2019.

c. Erroneous computation of depreciation

Furthermore, as noted in the District’s 2018 Annual Audit Report, depreciation expenses were erroneously computed and the accumulated depreciation was recorded in lump sum and not matched with any of the PPE accounts.

While the Accountant exerted efforts to match the 2019 total accumulated depreciation of P62,130,318.91 to each item of PPE as reflected in the financial statements, still, some PPE accounts had no beginning accumulated depreciation

although these assets have already been recognized in the prior periods. Details of which are as follows:

Particulars	Accumulated Depreciation as of 12/31/2019	Remarks
Office Equipment	P 83,654.58	The balances pertain to the recorded depreciation expense in 2019
Communication Equipment	972.04	
Other Machinery and Equipment	1,846,053.46	
Transportation Equipment	442,013.61	

The Accountant reasoned out the non-availability of records which hindered the District to set up the beginning accumulated depreciation of the above accounts, thus, our audit revealed that 2019 depreciation expenses were erroneously computed.

Details of the depreciation expenses for 2019 in the amount of P6,052,195.25 are as follows:

Particulars	Amount of Depreciation Expense		
	On Prior Years' Acquisitions	On CY 2019 Acquisitions	Total
Other Land Improvements	P -	P 14,001.71	P 14,001.71
Plant-Utility Plant in Service	3,295,872.66	189,025.67	3,484,898.33
Buildings	47,500.00	-	47,500.00
Water Plant, Structure and Improvements	114,496.86	483.76	114,980.63
Office Equipment	68,583.13	15,071.45	83,654.58
Information and Communication Technology Equipment	15,060.25	3,061.64	18,121.89
Communication Equipment	972.04		972.04
Other Machinery and Equipment	1,735,885.25	110,168.21	1,846,053.46
Motor Vehicles	435,678.75	6,334.86	442,013.61
Total	P 5,714,048.94	P338,146.30	P6,052,195.24

The total amount of P5,714,048.94 depreciation expenses on properties acquired from prior years did not have history details. The amount of depreciation was computed by the Accountant by dividing the depreciable cost (acquisition cost less salvage value) over the estimated useful life as if these were newly purchased properties. This resulted to the overstatement of the depreciation expenses since depreciation expenses totaling P2,241,119.67 pertain to prior years which were only recorded this CY 2020.

The above noted observations cast doubt on the existence, completeness, valuation and accuracy of the recorded PPE with net carrying amount of P179,953,630.22. These observations were also embodied in the 2018 Annual Audit Report but were not addressed by the District, thus this reiteration.

We recommended that the District undertake the following courses of action to ensure the existence, completeness, valuation and accuracy of recorded PPE:

- a. Create an inventory committee/team that will conduct physical inventory of PPE;**
- b. Instruct the Property Officer and Accountant to maintain complete property records and subsidiary ledgers, respectively, for reconciliation purposes; and**
- c. Instruct the accounting personnel to exert more efforts to locate records of the recorded PPE in order to compute the correct depreciation expenses.**

The Management acknowledged their failure to conduct physical inventory due to incomplete property records and that no committee was created for the conduct of which. The District committed to create an Inventory Committee which shall undertake the physical count of PPE this 2020 and added that efforts will be made to locate records in order to support the PPE balances and to compute the correct depreciation.

Unreconciled General and Subsidiary Ledger Balances of Accounts Receivable

- 2. The accuracy of the Accounts Receivables (AR) amounting to P11,013,117.46 could not be ascertained due to non-reconciliation between the General Ledger (GL) and Subsidiary Ledger (SL) balances contrary to Paragraph 2.18 of the Conceptual Framework for Financial Reporting thereby, affecting the fair presentation of the Financial Statements.**

Paragraph 2.18 of the Conceptual Framework for Financial Reporting provides that

“Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.”

Audit of financial statements disclosed that the District reported AR amounting to P11,013,117.46 on its 2019 Statement of Financial Position as follows:

AR per GL	P 5,151,116.45
Year-end Adjustment:	
Accrued Waterbills	<u>5,862,001.01</u>
AR per FS	<u><u>P11,013,117.46</u></u>

Review of the District's accounting and billing records revealed that the AR per GL amounting to P5,151,116.45 prior to the year-end adjustment of accrued water bills did not tally with the SL balance of P5,732,687.89, showing a material difference of P581,571.44. Presented is the analysis of the GL and SL balances of AR:

GL

AR as of January 1, 2019		P 5,706,503.04
Waterbills for 2019		64,366,940.30
Collections of Waterbills during 2019		(67,667,517.61)
Adjustments:		
-Billing Adjustments during 2019	P (720,477.28)	
-Erroneous recording of July 2019		
Waterbill	3,405,986.20	
-Erroneous recording of December 2019		
Collections	(0.40)	
-Dishonored Customer's Check #806348		
dated October 17, 2019	<u>59,682.20</u>	<u>2,745,190.72</u>
a) AR per GL		P 5,151,116.45

SL

Active Concessionaires:		
Commercial	P 461,894.24	
Government	182,512.75	
Residential	<u>1,783,643.92</u>	P 2,428,050.91
Inactive Concessionaires:		
Commercial	616,426.96	
Government	715,722.68	
Residential	<u>1,972,487.34</u>	<u>3,304,636.98</u>
b) AR per SL		P 5,732,687.89

Discrepancy (a - b) P 581,571.44

The Team noted that the Accounting Unit and the Billing Section did not regularly reconcile their records. The Accountant just relied on the GL balance with respect to the ending balance of AR.

Based on the foregoing, the accuracy of the AR amounting to P11,013,117.46 could not be ascertained thus, affecting the fair presentation of the financial statements.

We recommended that the Accountant look into the cause/s of unreconciled amount of GL and SL balances, and make necessary adjustments on the ending balance of AR. We further recommended that regular reconciliation of records be done to ensure accuracy of the AR and to prevent financial statements errors to conform with the qualitative characteristic of faithful representation as delineated under the Conceptual Framework for Financial Reporting.

The Accountant committed to coordinate with the Billing Section to identify the causes of unreconciled amount between the GL and SL balances and added that adjusting entries will be made for the reconciling items, if any.

Untitled Lots

- 3. Nine parcels of lot were not supported with Certificates of Title, contrary to Section 39 (2) of PD 1445, thus, posing the risk of third party claims.**

Section 39 (2) of the PD 1445 states that:

“In the case of deeds to property purchased by any government agency, the Commission shall require a certificate of title entered in favor of the government or other evidence satisfactory to it that the title is in the government.”

A Certificate of Title is the evidence of the right of the owner or the extent by which means he/she can control and as a rule assert right to exclusive possession and enjoyment of the property. Tax declarations and tax receipts as proof of ownership cannot prevail over a Certificate of Title. Said documents do not conclusively prove title to the land, but are only positive and strong indication that the taxpayer concerned has made a claim either to the title or to the possession of the property for which taxes have been paid. Unclear and unenforceable rights could lead to underinvestment, as the returns from any improvements and investments could be seized by others.

Review of records disclosed that nine out of fifteen parcels of lot owned by the District were not supported with Certificates of Title, thus, may be subject of third party claims. Details are as follows:

Lot	Area (in sq.m.)	Location at Bayambang, Pangasinan	Year Acquired	Certificate of Title No.
1	46	Zone II Rizal St., Poblacion	2005	289899
2	152	Zone II Rizal St., Poblacion	2005	289900
3	50	Barangay Nalsian Norte	2008	no Title

Lot	Area (in sq.m.)	Location at Bayambang, Pangasinan	Year Acquired	Certificate of Title No.
4	10,153	Barangay Tococ	2009	323046
5	14,451	Barangays Sapang and Tococ	2009	323044
6	6352	Barangay Buenlag	2009	323045
7	150	Barangay Amancosiling Norte	2010	026-2012002305
8	100	Barangay Tampog	2016	no Title
9	250	Barangay Tampog	2016	no Title
10	100	Barangay Bacnono	2016	no Title
11	200	Barangay Bongato East	2017	no Title
12	100	Barangay Buenlag 2 nd	2017	no Title
13	100	Barangay Mangayao	2018	no Title
14	200	Barangay Warding	2019	no Title
15	100	Barangay Buenlag 2 nd	2019	no Title

Moreover, the total costs of the land amounting to P5,507,834.48 as of December 31, 2019 could not be verified due to non-maintenance of records for each lot. The team observed that specific lot description of a number of previous entries recorded under the Land account was not identified. The Management explained that the non-availability of records hindered the District to apportion the total costs to each lot. For this reason, the accuracy of the book value of the land reported in the financial statements could not be ascertained.

This is a prior year observation as embodied in 2018 Annual Audit Report but was not fully addressed by the Management, thus this reiteration.

We reiterated our recommendation that Management continue to exhaust all efforts in securing the Certificates of Title of the lots to support claims of ownership; and to locate records to support the entries recorded in the Land account of the District in order to ascertain the accuracy of the reported book value of Land in the financial statements.

The Management commented that they will exert exhaustive efforts to secure the Certificates of Title of the lots. Of the nine untitled lots, one had already been issued with Certificate Authorizing Registration (CAR) by the BIR and is now ready to be processed for transfer at the Registry of Deeds in Lingayen, Pangasinan. Moreover, the Accountant informed the team that records are being looked into to identify the specific cost per lot.

Liquidation of Cash Advances

- Cash advances (CAs) were granted despite the non-liquidation of previous CAs contrary to Section 89 of PD 1445 and Section 1.2 of COA Circular No. 2012-001 dated June 24, 2012 on the granting and liquidation of CAs thus, agency funds were exposed to misuse and misappropriation.**

Section 89 of PD 1445 provides the following rules on CAs:

- *“No cash advance shall be given unless for a legally authorized specific purpose;*
- *A cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served; and*
- *No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.”*

On the other hand, Section 1.2 of COA Circular No. 2012-001 dated June 24, 2012 provides that accountable officers shall liquidate CAs within the following period:

- *“Salaries, wages, allowances, honoraria and other similar payments – within five calendar days after the end of the pay period.*
- *Field operating expenses – within 20 calendar days after the end of the year subject to replenishment as frequently as necessary during the year.*
- *Petty cash fund (PCF) – as soon as the disbursements reach 75% or as needed, the PCF shall be replenished which shall be equal to the total amount of expenditures made therefrom. In case of termination, resignation, retirement or dismissal of the PCF custodian, immediately thereafter.*
- *Travelling expenses – within 30 days after the return of the official/employee concerned to his official station for local travel and within 60 days after the return of the official/employee concerned to the Philippines in the case of foreign travel.*
- *Special purpose – as soon as the purpose of the cash advance has been served.”*

Examination of disbursement vouchers (DVs) and liquidation reports disclosed that there were instances where employees of the District were granted additional CAs despite the non-liquidation of the previous CA given to them. Particulars are tabulated as follows:

Payee	DV		Purpose	Amount	Liquidation Date
	No.	Date			

Accounting Processor A	19-08-033	8/13/2019	Travelling to LWUA, Balara Quezon City on August 14, 2019	P12,000.00	8/30/2018
	19-08-071	8/23/2019	Travelling to LWUA, Balara Quezon City on August 27, 2019	5,000.00	8/30/2018
General Manager	19-07-016	7/4/2019	Going to PIWADA GAD Forum and General Assembly, Election and Induction of Officers on July 5-6, 2019 at the Crown Legacy Hotel, Corner Montinola St., Kisad Road, Baguio City	10,000.00	7/18/2019
	19-07-034	7/11/2019	Registration of Toyota Hilux Pick Up	5,000.00	7/24/2019
Admin. and General Services Officer A	19-05-019	5/9/2019	To submit SALN to the Office of the Ombudsman and to submit Business Plan, Water Safety Plan and GAD Plan to LWUA, Quezon City, Metro Manila.	6,000.00	5/27/2019
	19-05-042	5/17/2019	Baywad Team Building and GAD Planning and Program 2019	180,000.00	5/30/2019

The above practice resulted in the overlapping CAs which is contrary to the rule that no additional CA shall be allowed to any official or employee unless the previous CA given to him is first settled or a proper accounting thereof is made.

Moreover, 27 out of 35 DVs for CAs granted in 2019 were not supported with the required Certification from the Accountant that the previous CA have been liquidated and accounted for in the books pursuant to COA Circular 2012-001 dated June 14, 2012.

Further, the Team noted that CAs were not immediately liquidated within the prescribed period of liquidation as delineated under the mentioned laws and regulations.

Payee	DV		Purpose	Liquidation Date	Due Date of Liquidation	Amount
	No.	Date				
Water Resources Facilities Operator B	19-04-027	4/12/2019	Registration of Motorcycle Insurance at GSIS, Dagupan City	5/2/2019	4/18/2019	P4,000.00

Payee	DV		Purpose	Liquidation Date	Due Date of Liquidation	Amount
	No.	Date				
General Manager	19-07-034	7/11/2019	Registration of the Toyota Hilux Pick Up	7/24/2019	7/15/2019	5,000.00
Administration Services Aide	19-11-020	11/11/2019	Purchase of cash books and columnars.	11/18/2019	11/13/2019	20,000.00

The above CAs which were granted for special purposes should have been liquidated when such purposes have already been served.

These are prior year observations as embodied in 2018 Annual Audit Report but were not fully addressed by the Management, thus this reiteration.

We reiterated our recommendation that the District should strictly implement the liquidation of previous CA before the grant of a new CA to adhere with the provisions of Section 89 of PD 1445 and Section 4.1 of COA Circular 97-002. Likewise, we recommended the attachment of the Certification from the Accountant that the previous CAs have been liquidated and accounted for in the books for every CA granted for control and monitoring purposes.

The Management agreed and committed to comply with the recommendation. The Accountant had also informed the Team that the attachment of the required certification was already implemented in the last quarter of 2019.

Non-Submission of Contracts and Purchase Orders to COA

- 5. Copies of contracts, purchase orders and the like were not submitted to the Office of the Auditor contrary to Sections 3.1.1 and 3.2.1 of COA Circular No. 2009-001 thus, precluded the timely auditorial review on various purchases.**

Section 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009 requires the submission of government contracts to the Office of the Auditor, to wit:

“Within five (5) working days from the execution of a contract by the government or any of its subdivisions, agencies or instrumentalities, including government-owned and controlled corporations and their subsidiaries, a copy of said contract and each of all the documents forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned.xxx”

Similarly, Section 3.2.1 of the same circular provides:

“A copy of any purchase order irrespective of amount, and each and every supporting document, shall, within five (5) working days from issuance thereof, be submitted to the Auditor concerned. xxx”

Copies of contracts, purchase orders and the like were not submitted to the Office of the Auditor within five (5) working days from the date of issuance. Details of which are tabulated below:

Nature of Expense	Number of Transactions	Amount Paid
Acquisition of UPIS	14	P16,593,790.41
Purchase of Materials	76	5,409,202.03
Purchase of Bulk Water	12	4,708,099.79
Fuel, Oil and Gasoline	17	2,247,756.15
Purchase of Office Equipment	23	489,175.17
Purchase of Water Meters	1	472,291.52
Purchase of Chlorine and Flowmeters	9	400,793.56
Construction of Perimeter Fence	1	310,986.96
Acquisition of Land	2	310,000.00
Purchase of Tools	7	219,658.52
Purchase of Accountable Forms	1	161,280.00
Acquisition of Information and Technology System	1	140,625.00
Purchase of Motor Vehicle	2	112,549.08
Purchase of Office Supplies	7	103,738.68
Purchase of Calendars	1	60,334.82
Purchase of Office Furniture	2	24,794.54
Others	4	43,374.74
Total	180	P31,808,450.97

A purchase order is a legally binding document between the District – as a buyer and the suppliers. It details the items to be purchased, the delivery date and terms of payment. In this case, it is the duty of the Auditor to review all contracts and/or POs and to ascertain the reasonableness of the price of the items purchased as delineated under the aforementioned Circular. However, the District did not submit the contracts and/or POs of the above-mentioned transactions which precluded the timely review by the Audit team.

We recommended that the District submit copies of contract and/or purchase orders and all supporting documents to the Office of the Auditor within five (5) working days from the date of issuance for the timely review.

The Management committed to submit copies of contracts, purchase orders and other documents within the prescribed period set forth in the mentioned COA Circular.

Procurement of Service Vehicle without Approved Request for Acquisition

6. The District's procurement of motorcycle in the amount of P81, 691.93 was not supported with an approved Request for the Acquisition of Government Motor Vehicles contrary to Administrative Order (AO) No. 14 – *Consolidating and Rationalizing the Rules on the Acquisition of Government Motor Vehicles, Adopting a Centralized System of Procurement Therefor, and for Other Purposes* dated December 10, 2018 thus, the acquisition was not authorized.

Section 5(a.1) of AO No. 14 states that:

“Section 5(a) The Secretary of Budget and Management is hereby authorized to approve the following:

1. *Requests of government offices, including GOCCs, GFIs and SUCs, whether or not attached to a department, for the acquisition of the following types of motor vehicles, chargeable against their respective appropriations authorized for this purpose:*
 - i. *Specific-purpose vehicles, such as medical ambulances, xxx;*
 - ii. *Heavy equipment, such as road construction equipment, xxx;*
 - iii. *Locally –assembled owner or passenger-type jeeps;*
 - iv. *Motorized bancas/boats;*
 - v. *Vehicles for mass transport when necessary in the interest of public service; and*
 - vi. *Motorcycles and tri-wheel vehicles.”*

Audit of disbursement vouchers revealed that the District, despite the absence of an approved Request for the Acquisition of Motor Vehicle, acquired a 175H Kick Kawasaki Barako Motorcycle in the amount of P81,691.93 paid under Disbursement Voucher No.0320190084 dated March 29, 2019.

Though the same observation was embodied in 2018 Annual Audit Report when the District purchased a service vehicle amounting to P979,000.00 without an approved request for acquisition, the District still procured the above motor vehicle without the required document.

We reiterated our recommendation that the District submit the Approved Request for the Acquisition of Motor Vehicles as delineated under AO No. 14.

The Management requested consideration on the above observation and explained that the acquired motorcycle was an emergency purchase since the District was in dire need of another service vehicle to be used by a group of new service connection team assigned to install water service lines. Nonetheless, the Management committed to follow the standard procedures in procuring service vehicles of the District which includes the securing of approved request for the acquisition of motor vehicles from DBM.

Notice of Suspension Nos. 2020-018 (18) and 2020-019 (19) were issued requiring submission by the District of the Approved Request for Acquisition.

Issue on Management Information System

7. Deficiencies on the use of the Consumer Service Business Management Application (CSBMA) of the District were noted in audit thus, benefits from the use of the application were not maximized.

CSBMA is an application designed and developed which incorporates the concessionaires' account maintenance, billing and collection system. The system was set up to avoid tedious, voluminous paper works in the concessionaires' account maintenance, errors in meter reading/bill computation, delayed posting of water bill payments and high number of personnel requirement.

However, walkthrough of the processes and interview with the users and administrator of the CSBMA disclosed the following observations:

a. Absence of a user manual

A user guide or manual is intended to give assistance to people using a particular system. It usually contains both a written guide and associated images like screenshots of the human-machine interface(s) or simplified diagrams. It includes a description of the system functions and capabilities, contingencies and alternate modes of operation, and step-by-step procedures for system access and use.

Though the Management justified that there was no manual provided by the developer, it is to be emphasized that the need for such is mandatory as it helps to ensure that the application is being used properly. It was noted during the interview with the users and administrator that due to the absence of the CSBMA manual, the administrator had to attend every request for assistance be it that a common technical problem or a usual posting error thus, wasting the time of everyone concerned. Such manual could have been used to identify, understand and untangle common technical problems by the users themselves.

b. Levels of access of users were not clearly defined

It was also noted that levels of access were not clearly defined in the CSBMA. Since there are no division heads of the District, approval function in the application was merely delegated to the more senior employees or to the administrator. It was also not clear who will approve or act as alternate in the absence of the approver. The administrator was not even sure if the level of access of a given user is based on the job responsibilities and workflows.

Proper hierarchy of users were not set up applying the principle of least privilege which provides that users will only be given access to the information and resources that are necessary for a legitimate purpose. The idea is to allow the right people to have the access that they need to do their jobs, but not enough access to bypass controls. Those under the low level can access only a limited set of information, whereas those under the highest level can access the most sensitive data on the system.

c. Limitation of the application to generate event-defined audit logs

Audit logs are used to identify problems that indicate system implementation issues, operational issues, unusual or suspicious activities, or system and operator errors. These trails aid in identifying suspicious behavior or actions by users.

It could be noted that though CSBMA has the feature of generating transaction logs, such report however could not be filtered by transaction or event thus, retrieving records/data back entails a lot of time and effort.

In addition to the mentioned functions of the application, strong, accurate and auditable log system should have been considered and discussed with the developer. It is important for the District to maintain records of changes and activities that occur in the CSBMA in order to prepare for audits, ensure security and integrity of data and identify problem sources.

d. There were no guidelines on the appropriate use of administrator access

The administrator account was designated to a casual employee whose access to the CSBMA was limitless. The management justified that he was designated as such because of his background in the Information Technology. However, since his status of appointment is not permanent yet his level of access is above that of a normal user, use of his account should be strictly consistent with his roles or responsibilities as prescribed by the management. Verification however revealed that there was no guideline on the use of the administrator access. He was granted with a 'super-user' access without identification of those deemed appropriate or inappropriate use of the access. In fact, there were no documents to prove that the General

Manager had authorized him to approve certain transactions such as grant of access to users.

We recommended that the Management undertake the following courses of action:

- a. require the developer to provide manual of the CSBMA;**
- b. define the levels of access of employees by clearly identifying those low level users to high level ones;**
- c. require the developer to add event-defined audit log; and**
- d. provide guidelines on the appropriate use of administrator access such as it is inappropriate to change system data when there is no valid reason and management approval.**

The Management commented that, as of this writing, the developer had already provided the user manual of the CSBMA, the levels of access of employees were now clearly identified as to low level users or high level ones and the event-defined audit log feature was already added. However, the provision of guidelines on the appropriate use of administrator access is for compliance this CY 2020.

B. VALUE FOR MONEY

Non-Revenue Water (NRW)

- 8. The District's NRW for CY 2019 is 3.20% over and above the tolerable rate of 20% as prescribed LWUA Resolution No. 444 series of 2009, hence, affected its operating and revenue generation efficiency, a manifestation of inadequacies in the control, monitoring of water production, distribution and water billing to the disadvantage of the District.**

LWUA, in its Resolution No. 444, series of 2009 (adopted on September 15, 2009) has prescribed the immediate implementation in the reduction of the maximum NRW from 25% to 20% applicable to all Water Districts in order to accelerate further improvement in the efficiency level of the Water Districts.

Furthermore, LWUA Memorandum Circular No. 014-10 dated December 2, 2010 states that:

“There is a need for Water Districts to reduce the Non-Revenue Water (NRW) in order to enhance its operational efficiency and improve its financial viability. All Water Districts are therefore enjoined to periodically conduct performance audit of water meters being used by customers to ensure its accuracy. Depending on the condition of operation, the water meters should be tested for its accuracy after five (5) years of utilization.”

Review of the Monthly Data Sheets for CY 2019 disclosed that the District's actual NRW rate of 23.20% exceeded the twenty percent (20%) rate prescribed by LWUA, as shown below:

Month	Water Produced (a)	Total Water Accounted (b)	Total Water Unaccounted (a-b)	NRW
	in cubic meters			
January	285,816	220,146	65,670	22.98%
February	259,449	207,491	51,958	20.03%
March	292,306	191,981	100,325	34.32%
April	305,515	236,058	69,457	22.73%
May	313,947	246,455	67,492	21.50%
June	312,313	238,837	73,476	23.53%
July	307,125	227,994	79,131	25.77%
August	308,729	242,318	66,411	21.51%
September	297,315	237,192	60,123	20.22%
October	299,699	223,579	76,120	25.40%
November	303,750	275,111	28,639	9.43%
December	312,043	216,082	95,961	30.75%
Total	3,598,007	2,763,244	834,763	23.20%

The District's NRW is considered as opportunity lost for additional revenues, thus, no income was realized for the cost of producing it. The District had an estimated water loss of P431,856.00, computed as follows:

Cost of fuel or power for pumping	P13,001,612.76
Chlorine cost	502,114.00
Total production costs	<u>13,503,726.76</u>
Divide by: Total water produced (in cubic meters)	3,598,007
Cost per cubic meter	P 3.75
Multiply by: Total water unaccounted (in cubic meters)	834,763
(a) Total cost of water unaccounted @ 23.20% rate	<u>P 3,130,361.25</u>
Water unaccounted @ 20%rate (in cubic meters)	719,601.40
Multiply by: Cost per cubic meter	3.75
(b) Total cost of water unaccounted @ 20% rate	<u>P 2,698,505.25</u>
Estimated water loss (a-b)	<u>P 431,856.00</u>

Expenses incurred to produce the NRW did not yield cash inflow, thus, viewed as wasted resources. These resources could have been used for other undertakings beneficial for the District.

We recommended that the District revisit the existing strategies/measures in reducing water losses and evaluate its efficiency and effectiveness, intensify the strategies undertaken, and devise/install a more effective and efficient measure to manage water losses in order to significantly reduce the high level of NRW to the tolerable rate of 20%.

The Management commented that compared with 2018, this year's NRW has decreased by 3.73% and nonetheless committed to implement more strategies to reduce/avoid water losses and meet the tolerable rate as prescribed by LWUA.

C. GENDER AND DEVELOPMENT (GAD)

Non-Submission of GAD Accomplishment Report to LWUA

- 9. The District had neithersubmitted for review its GAD Accomplishment Report for CY 2019 to LWUA nor appropriated the required five percent of the total agency budget which shall correspond to the activities supporting GAD plans contrary to Section 32 of the General Provisions of the General Appropriations Act (GAA) for FY 2019 and Philippine Commission on Women (PCW) Memorandum Circular (MC) No. 2015-03 dated May 19, 2015.**

Section 32 of the General Provisions of the GAA for FY 2019 provided that:

“Programs and Projects Related to Gender and Development. All agencies of the government shall formulate a Gender and Development (GAD) Plan designed to address gender issues within their concerned sectors or mandate and implement the applicable provisions under Republic Act No. 9710 or the Magna Carta of Women, Convention on the Elimination of All Forms of Discrimination Against Women, the Beijing Platform for Action, the Philippine Plan for Gender-Responsive Development (1195-2025) and the Philippine Development (2017-2022).

The Gad Plan shall be integrated in the regular activities of the agencies, which shall be atleast five percent (5%) of their budgets. For this purpose, activities currently being undertaken by agencies which relate to GAD or those that contribute to poverty alleviation, economic empowerment especially of marginalized women, protection, promotion, and fulfillment of women’s human rights, and practice of gender-responsive governance are considered sufficient compliance with said requirement. Utilization of GAD budget shall be evaluated based on the GAD performance indicators identified by said agencies.

The preparations and submission of the annual GAD Plan and annual GAD Accomplishment Report shall be subject to the guidelines issued by the agencies concerned.”

Further, PCW issued MC No. 2015-03 dated May 19, 2015 to set the LWUA, which exercises regulatory jurisdiction over water districts, as the preliminary reviewer of Water District GPBs. Water districts shall submit GPBs and ARs to LWUA for review. Considering however the large number of water districts, a moratorium on the review of LWUA was imposed by PCW. Nonetheless, water districts shall continue to submit GPBs and ARs to LWUA, which shall then compile and transmit these to PCW for the inclusion in the annual GAD budget report and other purposes.

Verification disclosed that the District had not submitted to LWUA its GAD AR for CY 2019. Also, the total GAD budget of P280,000 was only 0.24% of the approved COB of P114,577,959.24, which is less than the prescribed cost of implementation of GAD plans.

Section 4 of Joint Circular No. 2012-01 of PCW, NEDA and DBM delineated the following essential elements in GAD Planning and Budgeting:

1. Creation and/ or Strengthening of the GAD Focal Point System;
2. Capacity Building on Gender and Development;
3. Conduct of Gender Audit; and
4. Institutionalizing GAD Database/Sex-disaggregated Data

Of the above elements, the District had already created its GAD Focal Point System and had just started on the Capacity Building on Gender and Development. The Management reasoned that due to lack familiarity on GAD, the District was not able to strictly comply with the abovementioned requirements.

We recommended that the District prepare and submit to LWUA its GAD Accomplishment Report for review, allocate at least 5% of the total approved budget for GAD fund and strictly comply to the essential elements in GAD Planning and Budgeting to implement GAD requirements, programs and activities which are in support to the government’s effort to promote women’s economic empowerment, gender equality and gender-responsive development and governance.

The Management committed to comply with the audit recommendations.

D. COMPLIANCE WITH TAX LAWS

10. The District had remitted an aggregate amount of P3,833,468.34 to the Bureau of Internal Revenue for CY 2019. Details are as follows:

Tax Type	Amount
Franchise Tax	P1,377,808.11
Withholding Tax on Compensation	320,202.35
Withholding Tax on Government Money Payments	1,578,767.69
Creditable Income Taxes Withheld (Expanded)	519,805.67

Tax Type	Amount
Real Property Tax and Annual Registration Fee	36,884.52
Total	P3,833,468.34

E. DISASTER RISK REDUCTION AND MANAGEMENT (DRRM)

Non-Preparation of DRRM Plan

- 11. The District had not prepared and developed its DRRM Plan contrary to Section 37 of the General Provisions of the GAA of FY 2019, thus its resources are exposed to disaster risks in case of unforeseen calamities/disasters.**

Section 37 of the General Provisions of the GAA FY 2019 provides that:

“Mainstreaming of Disaster Risk Reduction and Climate Change Adaptation and Mitigation in All Agency Programs and Projects. All agencies of the government shall plan and implement programs and projects, taking into consideration measures for climate change adaptation and mitigation, and disaster risk reduction, based on climate and disaster risk assessments. National Government Agencies (NGAs) shall report their climate actions to the CCC for monitoring and evaluation of the implementation of the National Climate Change Action Plan.

To ensure that the disaster risk reduction and climate change adaptation measures are appropriate in the light of intensifying hazards, all national government projects should be subjected to multi-scenario, probabilistic analysis. For this purpose, the CCC shall extend the necessary technical and capacity building assistance to all agencies of the government in the conduct of risk assessment, as well as adaptation and mitigation planning.

All agencies shall undertake efforts to integrate environmental sustainability in their daily activities, systems, processes, and operations, and accelerate the greening of their organizational culture and behavior towards reducing their carbon footprint, through saving on paper and printing, minimizing the use of plastic and food waste, switching to renewable energy, reducing energy and water consumption, holding meetings online, and reducing travel emissions.”

Water is an indispensable need for human survival. To support the government efforts in strengthening the country’s DRRM System, Water Districts must develop their own DRRM Plans and submit the same to their oversight body, LWUA for approval. The plan shall help to ensure that appropriate courses of actions and measures are being undertaken in order for the District to continuously supply safe water to concessionaires even in cases of disasters/calamities.

However, verification revealed that Management had not yet prepared and developed plans, programs and projects designed to address calamities/disasters, or to lessen the adverse effects of climate change.

This is a prior year observation as embodied in 2018 Annual Audit Report but was not addressed by the Management, thus this reiteration.

We recommended the development of the District’s DRRM Plan and submission of the same to LWUA for approval to ensure the uninterrupted supply of safe quality of water to concessionaires even during calamities/disasters.

The Management commented that a committee had already been created to prepare the DRRM Plan through Office Order No. 31-19 dated December 2, 2019 and that the District is committed to comply with the audit recommendation.

F. SUSPENSIONS, DISALLOWANCES AND CHARGES

- 12. The amount of P72,000.00 representing the balance of Notice of Suspensions as of December 31, 2018 was fully settled this CY 2019 as reflected in various Notices of Settlement of Suspension/Disallowance/Charge (NSSDC) issued to the District.
- 13. The total amount of P1,154,134.77 was suspended in audit due to some lacking documents. Details of which are as follows:

NS No.	DV		Amount	Lacking Supporting Documents
	No.	Date		
2020-001(19)	19-01-042	1/22/2019	P 4,553.57	Legal Services: <ul style="list-style-type: none"> • Written conformity and acquiescence of the Office of the Government Corporate Counsel; • Concurrence of COA; and • Accomplishment Reports
2020-002(19)	19-02-044	2/18/2019	4,553.57	
2020-003(19)	0320190053	3/19/2019	4,553.57	
2020-004(19)	0420190065	4/25/2019	4,553.57	
2020-005(19)	0520190060	5/27/2019	4,553.57	
2020-006(19)	0620190078	6/27/2019	4,553.57	
2020-007(19)	0720190067	7/22/2019	4,553.57	
2020-008(19)	0820190046	8/19/2019	4,553.57	
2020-009(19)	0920190054	9/23/2019	4,553.57	
2020-010(19)	1020190053	10/28/2019	4,553.57	
2020-011(19)	1120190040	11/20/2019	P 4,553.57	
2020-012(19)	1220190053	12/27/2019	4,553.57	
2020-013(19)	19-01-019	1/16/2019	6,000.00	
2020-014(19)	052019062	5/27/2019	8,200.00	
2020-015(19)	072019064	7/22/2019	8,200.00	
2020-016(19)	082019045	8/19/2019	8,200.00	
2020-017(19)	2019-09-055	9/23/2019	8,200.00	
2020-018(18)	18-01-075	1/23/2018	979,000.00	

NS No.	DV		Amount	Lacking Supporting Documents
	No.	Date		
2020-019(19)	0320190084	3/29/2019	81,691.93	DBM approved Authority to Purchase
Total			P1,154,134.77	

14. The P2,803,709.11 balance of Disallowances as of December 31, 2018 was settled by P368,746.00 this CY 2019 as reflected in various NSSDCs issued to the District leaving a balance of P2,434,963.11 as of December 31, 2018.
15. The payments made to the General Manager for the reimbursement of Extraordinary and Miscellaneous Expenses in the total amount of P60,000.00 was disallowed because Notice of Suspension No. 2019-001(18) dated January 14, 2019 remained unsettled within the reglementary period of 90 calendar days pursuant to COA Circular 2009-006 dated September 15, 2009. Details of which are as follows:

Date	DV No.	Amount
1/3/2018	18-01-002	P 6,000.00
2/3/2018	18-02-003	6,000.00
3/12/2018	18-03-024	6,000.00
4/16/2018	18-04-037	6,000.00
5/15/2018	18-05-042	6,000.00
6/18/2018	18-06-037	6,000.00
7/16/2018	18-07-038	6,000.00
8/16/2018	18-08-028	6,000.00
9/17/2018	18-09-032	6,000.00
10/19/2018	18-10-048	6,000.00
Total		P60,000.00

PART III

STATUS OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 17 prior years' audit recommendations, 11 were fully implemented and 6 were partially implemented as detailed below:

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p>1. Submission of disbursement vouchers and other reports required under PD 1445 were made beyond due dates thus hindered the determination of validity, legality of all transactions of the business. This also in effect rendered the accuracy and reliability of account balances in the financial statements doubtful.</p> <p><i>We recommended management to: Require the accounting division and other district personnel concerned to comply with the requirements of the law on the timeline in the submission of financial and other required reports pursuant to COA circular no. 92-89E dated march 8, 1992 and COA circular no. 2015-004 dated July 16, 2015 and automatically cause the suspension of payment of the salaries of concerned employees until they shall have complied with the requirements of the commission pursuant to section 122 (2) of PD</i></p>	<p>2016 AAR (8)</p>	<p>The Management committed to comply with the recommendation.</p>	<p>Partially Implemented</p>	<p>The District had not consistently submitted DVs and other reports within their due dates.</p>

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p><i>1445. Further, no appropriation shall be available to pay the salary or any official or employee who violates the provisions on the submission of reports without prejudice to any disciplinary action that may be instituted against such official or employee.</i></p>				
<p>2. The District did not provide Impairment Losses of AR for the last five years due to absence of accounting policy contrary to PAS 39 – Financial Instruments: Recognition and Measurement, thus, resulting to overstatement of District’s total assets and net income.</p> <p><i>We recommended that the District, thru the Members of the Board of Directors, establish accounting policy on the reasonable estimate of the Allowance for Impairment of receivables to recognize appropriate Impairment Losses. We further recommended that the District undertake a detailed analysis to determine whether an impairment loss or reversal should be recognized to conform with the provisions set forth under PAS 39.</i></p>	<p>2018A AR (2)</p>	<p>The Management had already established an accounting policy on the measurement of the Impairment loss of AR thru Board Resolution No. 9 S. 2020 dated February 20, 2020. The Accountant recognized Impairment Loss as presented in the 2019 financial statements.</p>	<p>Fully Implemented</p>	

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p>3. Various accounts were materially misstated due to erroneous recording of transactions pertaining to materials held for sale to concessionaires for new connections contrary to COA Circular 2015-010 dated December 1, 2015 on the Adoption of the RCA for Government Corporations; thus, affecting the fair presentation of financial statements.</p> <p><i>We recommended that accounting personnel prepare entries to correct the errors in the recorded transactions relating to materials held for sale. We further recommended that the preparation of financial statements be in conformity with COA Circular 2015-010 on the Adoption of the RCA for Government Corporations.</i></p>	2018 AAR (3)	The Accountant already made journal entries to correct the errors. The Journal Entry Voucher pertaining to the correction of errors had been submitted to the Team for validation.	Fully Implemented	
<p>4. The accuracy and reliability of the Loans Payable account amounting to P90,551,957.37 were doubtful due to understatement of the account by P2,926,376.64, thus, the financial statements were not fairly presented. Also, the current portion of the loan was not presented separately as current</p>	2018 AAR (4)	The Accountant already reconciled Loans Payable balance per FS with the balances per LWUA and LBP records.	Fully Implemented	

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p>liability in the Statement of Financial Position contrary to paragraph 60 of PAS 1 – Presentation of Financial Statements.</p> <p><i>We recommended that accounting personnel of the District look into the cause/s of the discrepancy noted that resulted to the understatement of Loans Payable account and prepare entry/ies to correct the misstatement of the account. Likewise, we recommended that the current portion of the loans be presented separately as current liability and the remaining balance as noncurrent liability in the Statement of Financial Position to conform with PAS 1 for the fair presentation of financial statements.</i></p>				
<p>5. The accuracy and reliability of the Government Equity amounting to P84,511,973.94 were doubtful due to unsupported adjustments presented in the Statement of Changes in Equity contrary to Section 111 of PD 1445. Likewise, the preparation and presentation of the Statement was not in conformity with PAS 1 –</p>	<p>2018 AAR (5)</p>	<p>The Accountant already submitted the supporting documents of the prior year adjustments presented in the Statement of Changes in Equity for the year ended December 31, 2018. Also, the Statement of Changes in Equity for the</p>	<p>Fully Implemented</p>	

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p>Presentation of Financial Statements.</p> <p><i>We recommended that the District submit the supporting documents of the prior year adjustments presented in the Statement of Changes in Equity. We further recommended that the preparation and presentation of the Statement be in conformity with PAS 1 for fair presentation of financial statements.</i></p>		<p>year ended December 31, 2019 had been prepared in accordance with PAS 1.</p>		
<p>6. Semi-expendable properties totaling P240,418.18 were recorded under the PPE account contrary to Section 5.4 of COA Circular 2016-006 dated December 29, 2016, thus, overstating PPE and its related accumulated depreciation account along with the Retained Earnings account and Profit or Loss Summary for CY 2018 as presented in the Financial Statements. Likewise, Inventory Custodian Slips (ICS) were not prepared to establish accountability for the properties issued.</p> <p><i>We recommended that the District reclassify the semi-expendable properties to the appropriate expense or Retained Earnings account</i></p>	<p>2018 AAR (6)</p>	<p>The Accountant already reclassified the Semi-Expendable Properties to the appropriate expense and retained earnings account.</p>	<p>Partially Implemented</p>	<p>ICS for some items of Semi-Expendable Properties were not prepared and issued to the end users.</p>

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p><i>as delineated under Section 5.4 of COA Circular 2016-006. We further recommended that the Management require the Property Officer or his equivalent to prepare ICS for the semi-expendable for monitoring, control and accountability purposes.</i></p>				
<p>7. Journal Entry Vouchers for non-cash transactions were not prepared and submitted by the District thus, the validity and accuracy of these transactions were not ascertained.</p> <p><i>We recommended that accounting personnel of the District prepare and submit all Journal Entry Vouchers for auditing purposes.</i></p>	<p>2018 AAR (7)</p>	<p>JEVs were prepared and submitted to the Team together with the DVs.</p>	<p>Fully Implemented</p>	
<p>8. Full disclosure principle was not observed in the preparation of the Notes to Financial Statements; thus, not in conformity with PAS 1-Presentation of Financial Statements.</p> <p><i>We recommended that full disclosure be observed in the preparation of the Notes to Financial Statements to conform with PAS 1 for the fair presentation of financial statements.</i></p>	<p>2018 AAR (8)</p>	<p>The Notes to Financial Statements for CY 2019 had been prepared in accordance with PAS 1 and full disclosure principle.</p>	<p>Fully Implemented</p>	

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p>9. The practice of maintaining a depository account with a rural bank without prior approval from the DOF and retaining account balance of more than the maximum deposit insurance coverage of the PDIC, is not in conformity with DOF Department Circular No. 001-2017 and exposed agency funds to risk of loss.</p> <p><i>We recommended the District's compliance with the provisions of DOF DC No. 001-2017 by maintaining accounts only with AGDBs. While the District may point out the accessibility and security and safety reasons for maintaining the Rural Bank account, approval must be secured first from the DOF. And if approved, the management must see to it that the maintaining balance of the account is lower than the maximum deposit insurance coverage of the PDIC thus, the need for a more frequent transfer of funds to the District's LBP account.</i></p>	2018 AAR (10)	The District had already secured an Approved Request to Maintain an Account with Rural Bank of Bayambang as evidenced by a letter from the Secretary of Finance which was signed on October 23, 2019.	Fully Implemented	
10. Various emergency purchases in the total amount of P752,605.10 were not supported with justification as to the	2018 AAR (12)	The Management committed to comply with the audit recommendation.	Partially Implemented	There were five (5) emergency purchase transactions that were not

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p>urgency of purchase which was inconsistent with Section D.2.a of Annex H of the Revised Implementing Rules and Regulations (IRR) of Republic Act (R.A.) 9184, thus validity and legality of the transactions could not be ascertained.</p> <p><i>We recommended that Management strictly adhere with the provisions of Section D.2.a, Annex H of RA 9184 and its IRR; and that Accounting personnel strictly scrutinize the documentary requirements, to prove the legality and validity, before processing claims against Government Funds.</i></p>				supported with required justification as to the urgency of the purchases.
<p>11. Extraordinary and miscellaneous expenses (EME) of the General Manager were not supported with receipts and/or other documents evidencing disbursements, contrary to COA Circular No. 2006-01 thus the validity and propriety of the expense could not be ascertained.</p> <p><i>We recommended that the receipts and/or other documents evidencing disbursements in the claims of extraordinary and miscellaneous</i></p>	2018 AAR (14)	The District had already attached and submitted the supporting documents evidencing the disbursements of EME.	Fully Implemented	

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p><i>expenses be submitted within 90 days from receipt of NS to settle the suspension. We further recommended the District's adherence to the provisions of COA Circular No. 2006-01.</i></p>				
<p>12. Two or more Certification of Expenses not Requiring Receipts prescribed under COA Circular No. 2017-001 dated June 19, 2017 were customarily attached as supporting documents for reimbursements thus, manifesting splitting of transactions to avoid the submission of receipts or invoices in violation of Section 4 (6) of PD 1445.</p> <p><i>We recommended that the District ensure strict compliance with the provisions of Section 6 of PD 1445 for reimbursement of expenses by supporting the transactions with invoices/official receipts especially for goods/services purchased from business establishments which issue invoices/official receipts.</i></p>	<p>2018 AAR (15)</p>	<p>The Management had reduced the number of split transactions through submission by the employees of receipts/invoices as supporting documents for reimbursements instead of issuing the certification.</p>	<p>Partially Implemented</p>	<p>Two "Certification of Expenses not Requiring Receipts" were attached as supporting documents pertaining to rental payment of lot space at Barangay Wawa amounting to P400.00 per month. The Management will require acknowledgment receipt from the lessor for the payment of rent instead of issuing the certification.</p>
<p>13. The inadequate control procedures on fuel consumption are inconsistent with Sections 123 and 124 of PD1445, thus the accuracy, validity and propriety of the fuel</p>	<p>2018 AAR (16)</p>	<p>Gas Slips attached to DRs were properly prepared and approved by the GM. The Monthly Report</p>	<p>Partially Implemented</p>	<p>Gas Slips issued were still unnumbered and no attachment of trip tickets for travels.</p>

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p>expense were doubtful. Also, the validity of the payments made to Sagun Gasoline Station could not be ascertained due to non-submission of Monthly Report of Fuel Consumption of Government Motor Vehicle and non-preparation of the Trip Tickets before the use of government vehicles in violation of Section 361 of Government Accounting and Auditing Manual (GAAM) Volume I and COA Circular 75-6.</p> <p><i>We recommended that Management strictly implement control procedures on the District's consumption of fuel taking into consideration the following courses of action:</i></p> <p><i>Fuel for service vehicles:</i></p> <p><i>a) Ensure that Gas Slips which were attached to DRs are approved by the GM and these shall indicate the date, plate number of the vehicle and quantity of the fuel requested for control and monitoring purposes.</i></p>		<p>of Fuel Consumption of Government Vehicles were prepared and attached to the DVs.</p>		

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p><i>b) Submit justification why the Gas Slips were not approved and why DRs were paid despite the absence of properly filled up and approved Gas Slips.</i></p> <p><i>Fuel for gensets:</i></p> <p><i>a) Ensure that Gas Slips which were attached to DRs are approved by the GM and these shall indicate the date, the property number and location of the generator and quantity of the fuel requested for control and monitoring purposes.</i></p> <p><i>b) Submit justification why the Gas Slips were not approved and why DRs were paid despite the absence of properly filled up and approved Gas Slips.</i></p> <p><i>c) Ensure Service Manual Readings of every generator sets of the District.</i></p> <p><i>We further recommended the District's adherence with the provisions of</i></p>				

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p><i>Section 361 of GAAM Vol. I and COA Circular 75-6 through the preparation of Trip Tickets attached to properly filled-up and approved Gas Slips and the regular submission of Monthly Report of Fuel Consumption of Vehicles and Monthly Report of Official Travels. Likewise, we recommended the submission of Monthly Report of Fuel Consumption for each genset of the District for control and monitoring purposes.</i></p>				
<p>14. The provision of mobile postpaid plans without an approved policy guideline on the grant thereof is not in accordance with the provisions of Section 2 of PD 1445 and Section 5 of COA Circular No. 2012-003, hence, resulted to uncontrolled and excessive expenditures.</p> <p><i>We recommended the District's adoption and/or implementation of a clear policy guideline on the provision of mobile postpaid plans and that monitoring of the charges be strictly implemented in accordance with Section 2 of P.D. 1445 and COA Circular No. 2012-003 to ensure that government funds are used efficiently</i></p>	<p>2018 AAR (17)</p>	<p>The District already charges the employees concerned for the excess usage of the mobile postpaid plan.</p>	<p>Partially Implemented</p>	<p>The District had no approved policy guideline on the provision of the employees' mobile postpaid plan.</p>

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p><i>and economically. We further recommended that officials with postpaid plans shoulder personally charges in excess of the plan amounts which include pasaload and browsing subscriptions which are considered excessive expenditures. Likewise, we recommended that the District provide amortization schedule of the cost of the mobile phones which shall also be shouldered by the official/employee since the high-end mobile phone units are not being booked up and accounted for in the books of the District.</i></p>				
<p>15. The monthly net take home pay of six regular employees was below the mandated minimum amount of P5,000.00 due to laxity in accommodating payroll deductions of employee obligations thus, violated Section 48 of General Appropriations Act (GAA) for Fiscal Year (FY) 2018.</p> <p><i>We recommended that payroll deductions be limited following the order of preference provided in the GAA and ensure that employees' monthly net take home pay shall not be lower than P5,000.00 as</i></p>	<p>2018 AAR (18)</p>	<p>The Management complied with the audit recommendation.</p>	<p>Fully Implemented</p>	

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p><i>provided under Section 48 of GAA for FY 2018. Likewise, we recommended that Management monitor additional loans which are allowed to be deducted from employees' salaries if such will result to a monthly net take home pay lower than P5,000.00.</i></p>				
<p>16. The District had neither prepared Gender and Development (GAD) Plan and Budget (GPB) for CY 2018 nor implemented GAD programs and activities, hence not in support to the Government's effort to promote women's economic empowerment, gender equality and gender-responsive development and governance.</p> <p><i>We recommended that Management prepare GPB and implement GAD programs and activities in support to the government's effort to promote women's economic empowerment, gender equality and gender-responsive development and governance.</i></p>	2018 AAR (20)	The Management complied with the audit recommendation.	Fully Implemented	
17. The practice of non-withholding taxes on purchases of goods and services from various	2018 AAR (22)	In CY 2019, the District as a withholding agent was already	Fully Implemented	

Observations/ Recommendations	Ref.	Management Action	Status of Implementation	Reason for Partial/Non- implementation
<p>suppliers and on per diems of the members of the Board of Directors despite its authority as withholding agent is inconsistent with Section II of BIR Revenue Memorandum Order (RMO) No. 23-2014 dated June 20, 2014 and BIR Revenue Regulation (RR) No. 11-2018 dated January 31, 2018, thus deprived the government of additional income.</p> <p><i>We recommended the District's strict adherence with the provisions of BIR RMO No. 23-2014 and BIR RR No. 11-2018 by withholding the appropriate taxes on purchases of goods and services from the suppliers and on per diems of the members of the Board of Directors.</i></p>		<p>practicing the withholding of taxes on the purchases of goods and services and on BOD per diem.</p>		