



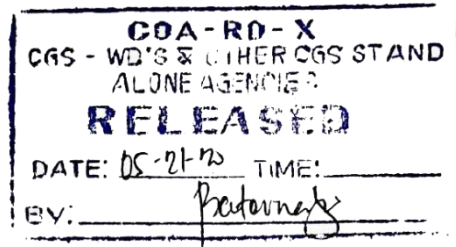
Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. 10  
J.V. Serina Street, Carmen, Cagayan de Oro City

**OFFICE OF THE REGIONAL DIRECTOR**

February 21, 2020

**Ms. ANGELITA P. ROBLES**  
Chairperson, Board of Directors  
Kapatagan Water District  
Kapatagan, Lanao del Norte

**Mr. CLAIR GREBERN U. ELUMIR**  
General Manager  
Kapatagan Water District  
Kapatagan, Lanao del Norte



Dear Chairperson A. Robles and Manager C.G. Elumir :

We are pleased to transmit the Annual Audit Report on the audit of **Kapatagan Water District (KAPWD)**, Kapatagan, Lanao del Norte as of December 31, 2019, pursuant to Section 2, Article IX-D of the Philippine Constitution and pertinent provisions of Section 43 of the Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

The audit was conducted to (a) ascertain the fairness of presentation of the financial statements; (b) ascertain the propriety of financial transactions and compliance with law, rules and regulations ;(c) recommend agency improvement opportunities ; and (d) determine the extent of implementation of prior years' audit recommendations.

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

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI) and we believe these standards provided a reasonable basis for the audit results.

A Modified-Qualified Opinion was rendered on the Financial Position of the Kapatagan Water District as of December 31, 2019, and the results of operations and cash flows for the year then ended, as presented in the financial statements accompanying this report.

We expressed Modified-Qualified Opinion on the fairness of the presentation of the financial statements of the Kapatagan Water District for the year 2019 due to the following exceptions:


1. Physical count of Property, Plant and Equipment was not conducted as mandated by Section 38, Volume I of the Government Accounting Manual (GAM) thus the amount of the fixed assets account balances reflected in the financial statements in the amount of ₱55,575,988.81 is of doubtful validity.

2. Non-submission of the Result of Physical Count of Inventory duly reconciled with the Supplies Ledger Cards and Stock Cards kept by the Accounting Unit and the Property/Supply Unit respectively as provided by Section C, D and E, Appendix 66, Volume II of the Government Accounting Manual, puts in doubt the validity of the amount of Inventory as reflected in the financial statements of in the amount of ₱ 4,376,328.29.
3. Water sales for the month of December 2019 amounting to P74,181.97 were not accrued and recognized as income contrary to the Philippine Accounting Standards (PAS) 1 and PAS 18, thus resulting to understatement of income from water sales and related accounts receivable accounts.

The above and other observations, together with the recommended courses of action which were conferred by the Audit Team with you and other officials of the agency and are discussed in detail on Part II of the Report.

We appreciate the invaluable support and cooperation extended by the officials of that Agency to the Audit Team which facilitated the completion of the report.

Very truly yours,



**CELSO L. VOCAL**  
Director IV  
Regional Director

*Copy furnished*

*The President of the Philippines  
Malacañang Palace, Manila*

*The Vice-President of the Philippines  
Coconut Palace, F. Maria Guerrero St.  
CCP Complex, Pasay City*

*The Chairman-Senate Finance Committee  
Senate of the Philippines  
Roxas Boulevard, Pasay City*

*The Chairman-Appropriations Committee  
House of Representatives  
HOR Complex, Constitutional Hills, Quezon City*

*The Secretary of the Budget and Management  
Department of Budget and Management  
G. Solano St., San Miguel, Manila*

*The Administrator  
Local Water Utilities Administration (LWUA)  
MWSS-LWUA Complex, Katipunan Avenue  
Balara, Quezon City*

*The Director  
National Library of the Philippines  
T.M. Kalaw, Ermita, Manila*

*The Chief of Office  
UP Law Center, UP, Diliman, Quezon City*

*File*



Republic of the Philippines  
**COMMISSION ON AUDIT**  
 Provincial Satellite Auditing Office  
 Iligan City  
 R10-05, Water Districts

**KAPATAGAN WATER DISTRICT**  
 For Calendar Year 2019  
 Agency Action Plan and Status of Implementation  
 (AAPSI)

| Ref.                     | Audit Observation  | Audit Recommendation(s)   | Agency Action Plan |                            |                            |    | Status of Implementation | Reason for Partial/ Delay/ Non-Implementation | Action to be Taken |
|--------------------------|--|---|--------------------|----------------------------|----------------------------|----|--------------------------|---|--------------------|
|                          |  |   | Action Plan        | Person / Dept. Responsible | Target Implementation Date |    |                          |   |                    |
|                          |  |   |                    |                            | From                       | To |                          |   |                    |
| AOM No. 2019-005 (KAPWD) | KAPWD still accepts Checks from concessionaires which have a history of dishonored checks (NSF Checks) due to insufficiency of funds in violation of COA Memorandum 2013-004 dated July 9, 2013 Chapter II, Section 28, regarding dishonored checks. | We recommend that a policy be promulgated which adheres strictly to the provisions of COA Memorandum 2013-004 dated July 9, 2013 in refusing to accept check payment from concessionaires which has a history of dishonored checks and accepting only cash or certified check. If the payor is a government entity, check payment should be accepted only when it is accompanied by a bank advice duly stamped received by the drawee bank. |                    |                            |                            |    |                          |   |                    |
| AOM No. 2019-006 (KAPWD) | Collections were not deposited daily and intact in violation of  | Collections should be deposited intact the next available banking day. The  |                    |                            |                            |    |                          |   |                    |

| Ref.    | Audit Observation   | Audit Recommendation(s)   | Agency Action Plan |  |  |  | Status of | Reason for | Action to |
|---------|---|---|--------------------|--|--|--|-----------|------------|-----------|
|         | <p>Section 69 of Presidential Decree No. 1445 and Paragraph 32, Remittances/Deposits Section, Chapter II - Laws and Rules Relevant to Cash Examination of the Revised Cash Examination Manual (COA Memorandum 2013-004 dated July 9, 2013).</p> | <p>cashier should be vigilant in her duties in reviewing the remittances given to her by the tellers and should count the money remitted in the presence of the teller and compare it with submitted collection summary to check that it is intact. Any discrepancy should be noted such as missing or cancelled ORs, shortage, and overage in the remittance. Tellers and alternate tellers should be provided with his own account in the collection system. Access to other tellers' account in the collection system should not be allowed. Each teller should be provided with a cash box where they can put their collections and should be surrendered to the cashier together with their collection summary so that mixing up of collections can be avoided. The teller's password to the collection system and combination to the cash box should be written and put in a sealed envelope with access limited to the teller concerned, the cashier and the head of the agency.</p> |                    |  |  |  |           |            |           |
| AOM No. | Fidelity Bond was not   | We recommend strict   |                    |  |  |  |           |            |           |

| Ref.                           | Audit Observation  | Audit Recommendation(s)  | Agency Action Plan |  |  |  | Status of | Reason for | Action to |
|--------------------------------|--|--|--------------------|--|--|--|-----------|------------|-----------|
| 2019-007<br>(KAPWD)            | posted or insufficient for accountable officers who handles government cash or property as required by Section 101 of Presidential Decree No. 1445 and Section 7.1 of COA Circular 97-002 dated February 10, 1997 as amended by COA Circular 2006-005 dated July 13, 2006. | adherence to Section 101 of Presidential Decree No. 1445 and Section 7.1 of COA Circular 97-002 dated February 10, 1997 as amended by COA Circular 2006-005 dated July 13, 2006 for the posting of fidelity bond for accountable officers handling government funds and property. The amount of bond premium should correspond to their maximum accountability as provided for in by Treasury Circular No. 02-2009 dated August 6, 2009. The designated accountant should be prohibited in doing collecting functions in adherence to sound internal control of segregation of duties custody of assets, authorization, approval and recording or reporting of related transactions affecting those assets. Submit a copy of the Fidelity Bonds to the Auditor's Office for information and filing |                    |  |  |  |           |            |           |
| AOM No.<br>2019-008<br>(KAPWD) | Reimbursement Expense Receipts were used to liquidate  | Management should stop the practice of using RER to liquidate or "pre-liquidate"   |                    |  |  |  |           |            |           |

| Ref.                     | Audit Observation   | Audit Recommendation(s)  | Agency Action Plan |  |  |  | Status of | Reason for | Action to |
|--------------------------|---|--|--------------------|--|--|--|-----------|------------|-----------|
|                          | cash advances from Petty Cash Fund instead of Acknowledgement Receipts which is not in accordance with COA Circular 2004-006 dated September 9, 2004 regarding acceptability of evidence of receipt of payment for disbursements. | cash advances given to district personnel as it is not in accordance with COA Circular 2004-006 dated September 9, 2004. Submit proper evidence of receipt of payment such as Acknowledgement Receipts (ARs) to support liquidation of cash advances from the PCF.   |                    |  |  |  |           |            |           |
| AOM No. 2019-009 (KAPWD) | Regular expenses amounting to Php 381,416.92 were paid out from the Petty Cash Fund which is not in accordance with Section 4.3.2 of COA Circular 97-002 dated February 10, 1997.   | Management should stop the practice of charging regular expenses to petty cash fund. Purchase office supplies, supplies and materials in bulk, enough for two to three months consumption which is more advantageous to the government. Establish credit line from nearby gasoline stations taking into consideration the provisions of RA 9184 and other conditions advantageous to the District and the government. Take into consideration emergency repairs and rentals of equipment in planning and drawing up the budget for the District. |                    |  |  |  |           |            |           |
| AOM No: 2020-001         | The estimated 611,670.68 cu.m. of   | We recommend to the District to improve its  |                    |  |  |  |           |            |           |

| Ref.                     | Audit Observation  | Audit Recommendation(s)   | Agency Action Plan |  |  |  | Status of | Reason for | Action to |
|--------------------------|--|---|--------------------|--|--|--|-----------|------------|-----------|
| (KapWD)                  | unaccounted water incurred by the District costing P1,220,950.36 for CY 2019 is 8.78% more than the maximum acceptable level of Non-Revenue Water (NRW) of 20% prescribed by LWUA thru Resolution No. 444, series of 2009.   | efficiency level by significantly reducing water loss to at least the allowable level of 20% through formulation of a more effective and intensive NRW Reduction Plan and Budget.   |                    |  |  |  |           |            |           |
| AOM No: 2020-002 (KapWD) | Water sales for the month of December 2019 amounting to P74,181.97 were not accrued and recognized as income contrary to the Philippine Accounting Standards (PAS) 1 and PAS 18, thus resulting to understatement of income from water sales and related accounts receivable accounts. | We recommend that Management start recognizing their accrued income from water sales and to adjust the necessary accounts to reflect a more accurate and reliable balance in the financial statements.                          |                    |  |  |  |           |            |           |
| AOM No: 2020-003 (KapWD) | The District did not provide Allowance for Doubtful Accounts for Accounts Receivable from water sales totaling P3,663,351.17 as of December 31, 2019,  | We recommend that Management employ the accounting policy based on Sec. 9 of the Government Accounting Manual (GAM), Vol. on setting up Allowance for Doubtful Accounts and request for write-off of dormant accounts with COA, |                    |  |  |  |           |            |           |

| Ref.                     | Audit Observation   | Audit Recommendation(s)  | Agency Action Plan |  |  |  | Status of | Reason for | Action to |
|--------------------------|---|--|--------------------|--|--|--|-----------|------------|-----------|
|                          | respectively, contrary Sec. 9 of the Government Accounting Manual (GAM), Vol. I thus, casting doubts on the fairness of the presentation of the financial statements.   | if necessary.  |                    |  |  |  |           |            |           |
| AOM No: 2020-004 (KAPWD) | Physical count of Property, Plant and Equipment was not conducted as mandated by Section 38, Volume I of the Government Accounting Manual (GAM) thus the amount of the fixed assets account balances reflected in the financial statements in the amount of ₱55,575,988.81 is of doubtful validity. | We recommend that physical count of property, plant and equipment should be conducted and reconciliation of Report on the Physical Count of Property Plant and Equipment to the Accounting unit's Property Plant and Equipment Ledger Card and the Property and Supply unit's Property Card be undertaken. The results of such reconciliation should be submitted to the Office of the Auditor as provided by Section 38 and 42, Volume 1 of the Government Accounting Manual. Property Accountability Receipt for these assets should be renewed every three (3) years. |                    |  |  |  |           |            |           |
| AOM No: 2020-005 (KAPWD) | Non-submission of the Result of Physical Count of Inventory duly  | We recommend the submission to the Office of the Auditor a copy of Report on the Physical  |                    |  |  |  |           |            |           |



| Ref.                     | Audit Observation   | Audit Recommendation(s)   | Agency Action Plan |  |  |  | Status of | Reason for | Action to |
|--------------------------|---|---|--------------------|--|--|--|-----------|------------|-----------|
|                          | reconciled with the Supplies Ledger Cards and Stock Cards kept by the Accounting Unit and the Property/Supply Unit respectively as provided by Section C, D and E, Appendix 66, Volume II of the Government Accounting Manual, puts in doubt the validity of the amount of Inventory as reflected in the financial statements of in the amount of ₱ 4,376,328.29. | Count of Inventory, duly reconciled with the Supply Ledger Cards maintained by the Accounting unit and Stock Cards maintained by the Property and Supply unit as provided by Sections C, D and E of Appendix 66, Government Accounting Manual, Volume II. The Auditor or his/her representative should be present when physical count of inventory is to be conducted and therefore notice should be given beforehand when there is such an activity. |                    |  |  |  |           |            |           |
| AOM No: 2020-006 (KAPWD) | The District did not adhere to Republic Act No. 656 (Property Insurance Law) to insure their properties with a book value or replacement value of ₱54,461,698.56 thus exposing District property to unindemnifiable damage, loss due to fire, earthquake, storm, or other casualty brought by fortuitous events   | We recommend that adherence to Section 5 of RA 656 to protects the District against any damage or loss properties or assets and interests due to fire, earthquake, storm, or other fortuitous events/casualty. Submit yearly the Property Inventory Form to the Government Service Insurance System and to the Office of the Supervising Auditor/Audit Team Leader every 30th day of April.   |                    |  |  |  |           |            |           |

| Ref. | Audit Observation                   | Audit Recommendation(s) | Agency Action Plan |  |  |  | Status of | Reason for | Action to |
|------|-------------------------------------|-------------------------|--------------------|--|--|--|-----------|------------|-----------|
|      | (Acts of God) and/or force majeure. |                         |                    |  |  |  |           |            |           |

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

Prepared by:

**CLAIR GREBERN U. ELUMIR**  
General Manager



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. 10  
Cagayan de Oro City

**OFFICE OF THE SUPERVISING AUDITOR**  
CGS -Water Districts and Other CGS Stand-Alone Agencies

---

February 21, 2019

**ATTY.CELSO L. VOCAL**

Regional Director  
COA - Regional Office No. X  
Cagayan de Oro City

Sir:

We are submitting the Annual Audit Report on the Kapatagan Water District for the year ended December 31, 2019 pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43(2) of Presidential Decree No. 1445, offense known as the Government Auditing Code of the Philippines.

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

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

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

Our audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI) and we believe that the audit evidence we have obtained provide reasonable basis for our audit opinion/report.

Very truly yours,

  
**CECILIA A. PONTILLAS**  
State Auditor  
Supervising Auditor



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. 10  
Cagayan de Oro City

**OFFICE OF THE AUDIT TEAM LEADER**

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

February 21, 2019

**Ms. CECILIA A. PONTILLAS**

Supervising Auditor

CGS – Water Districts and Other CGS Stand-Alone Agencies

COA - Regional Office No. X

Cagayan de Oro City



Ma'am:

In compliance with Section 2, Article IX-D of the Philippine Constitution and pertinent provisions of Presidential Decree No. 1445, we conducted a financial audit on the accounts and operations of the **Kapatagan Water District**, Kapatagan, Lanao del Norte, as of December 31, 2019.

The audit was conducted to ascertain the propriety of the financial transactions and determine the extent of compliance of the agency to prescribed rules and regulations. It was also made to ascertain the accuracy of the financial records and reports, as well as the fairness of the presentations of the financial statements.

The audit report consists of three parts, Part I - Audited Financial Statements, Part II - details of our significant Observations and Recommendations which were discussed with concerned management officials and staff during the exit conference held on February 21, 2019, and Part III - Status of Implementation of Prior Years' Audit Recommendations.

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

Our audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI) and we believe these standards provide reasonable basis for the results of the audit.

Very truly yours,

**AMADO PETER A. GARBANZOS**

State Auditor IV

Audit Team Leader



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. 10  
Carmen, Cagayan de Oro City

# **ANNUAL AUDIT REPORT**

## **ON THE**

### **KAPATAGAN WATER DISTRICT Kapatagan, Lanao del Norte**

#### **For the Year Ended December 31, 2019**

## EXECUTIVE SUMMARY

### A. Introduction

The Kapatagan Water District (KAPWD) was created under a special law, Presidential Decree 198 as amended by PD Nos. 768 and 1479 better known as the “Provincial Water Utilities Act of 1973.” KAPWD was awarded with the Certificate of Conditional Conformance No. 228 by the Local Water Utilities Administration (LWUA) on November 8, 1982.

The KAPWD is presently categorized as “Category C” Water District serving a total population of 27,165 as of December 31, 2019 with 5,060 total active service connections.

As of December 31, 2019, the governing board is composed of personalities representing the different sectors and organizations within the Municipality of Kapatagan who were appointed by the Local Chief Executive. They exercise corporate powers and determine policies for the operations of the District. They are as follows:

Chairperson: Angelita P. Robles  
Members: Enrico P. Eya  
Lito P. Castellano, Sr.  
Raul C. Carreon, Sr.  
Romulo R. Insoy

All local water districts were declared as Government-Owned and Controlled Corporations (GOCC) by the Supreme Court on September 13, 1991 in the case docketed as GR Nos. 95237-38.

An audit was conducted on the accounts and operations of Kapatagan Water District for calendar year 2019.

The audit consisted of testing the adequacy of the related systems and controls set by the agency, verification of the accuracy, legality and completeness of its financial transactions, and the application of the other audit procedures considered necessary under the circumstances. It was also made to determine whether the district’s financial statements present fairly its financial position and results of operations and cash flows, and whether applicable laws, rules and regulations were followed. Further, it was also conducted to determine whether the agency managed and utilized its resources economically, efficiently and effectively in the implementation of its programs, projects and activities.

### B. Financial Highlights

As of December 31, 2019, there was a decrease of 0.21% in assets, decrease of 4.71% in liabilities and increase of 2.39% in government equity, summarized as follows:

#### *Financial Condition*

|                   | 2019            | 2018            | Increase/(Decrease) |
|-------------------|-----------------|-----------------|---------------------|
| Assets            | ₱ 4,474,962.62  | ₱ 74,632,866.91 | ₱ (157,904.29)      |
| Liabilities       | ₱ 26,081,588.62 | ₱ 27,369,392.47 | ₱ (1,287,803.85)    |
| Government Equity | ₱ 48,393,374.00 | ₱ 47,263,474.44 | ₱ 1,129,899.56      |

## Results of Operations

|                      | 2019            | 2018            | Increase/(Decrease) |
|----------------------|-----------------|-----------------|---------------------|
| Income               | ₱ 38,552,045.08 | ₱ 35,496,229.62 | ₱ 3,055,815.46      |
| Expenditures         | ₱ 34,802,326.20 | ₱ 32,166,417.50 | ₱ 2,635,908.70      |
| Net Operating Income | ₱ 3,749,718.88  | ₱ 3,329,812.12  | ₱ 419,906.76        |

### C. Independent Auditor's Report on the Financial Statements

A Modified-Qualified Opinion was rendered on the fairness of presentation of the financial statements due to:

- a) Physical count of Property, Plant and Equipment was not conducted as mandated by Section 38, Volume I of the Government Accounting Manual (GAM) thus the amount of the fixed assets account balances reflected in the financial statements in the amount of ₱55,575,988.81 is of doubtful validity.
- b) Non-submission of the Result of Physical Count of Inventory duly reconciled with the Supplies Ledger Cards and Stock Cards kept by the Accounting Unit and the Property/Supply Unit respectively as provided by Section C, D and E, Appendix 66, Volume II of the Government Accounting Manual, puts in doubt the validity of the amount of Inventory as reflected in the financial statements of in the amount of ₱4,376,328.29.
- c) Water sales for the month of December 2019 amounting to ₱74,181.97 were not accrued and recognized as income contrary to the Philippine Accounting Standards (PAS) 1 and PAS 18, thus resulting to understatement of income from water sales and related accounts receivable accounts.

### Summary of Significant Observations and Recommendations

**1. The District did not provide Allowance for Doubtful Accounts for Accounts Receivable from water sales totaling P3,663,351.17 as of December 31, 2019, respectively, contrary Sec. 9 of the Government Accounting Manual (GAM), Vol. I thus, casting doubts on the fairness of the presentation of the financial statements.**

We recommended that Management employ the accounting policy based on Sec. 9 of the Government Accounting Manual (GAM), Vol. on setting up Allowance for Doubtful Accounts and request for write-off of dormant accounts with COA, if necessary.

**2. The District did not adhere to Republic Act No. 656 (Property Insurance Law) to insure their properties with a book value or replacement value of ₱54,461,698.56 thus exposing District property to unindemnifiable damage, loss due to fire, earthquake, storm, or other casualty brought by fortuitous events (Acts of God) and/or force majeure.**

We recommended that adherence to Section 5 of RA 656 to protects the District against any damage or loss properties or assets and interests due to fire, earthquake, storm, or other fortuitous events/casualty. Submit yearly the Property Inventory Form to the Government

Service Insurance System and to the Office of the Supervising Auditor/Audit Team Leader every 30th day of April.

**3. Regular expenses amounting to Php 381,416.92 were paid out from the Petty Cash Fund which is not in accordance with Section 4.3.2 of COA Circular 97-002 dated February 10, 1997.**

We recommended that Management should stop the practice of charging regular expenses to petty cash fund. Purchase office supplies, supplies and materials in bulk, enough for two to three months consumption which is more advantageous to the government. Establish credit line from nearby gasoline stations taking into consideration the provisions of RA 9184 and other conditions advantageous to the District and the government. Take into consideration emergency repairs and rentals of equipment in planning and drawing up the budget for the District.

**4. The estimated 611,670.68 cu.m. of unaccounted water incurred by the District costing P1,220,950.36 for CY 2019 is 8.78% more than the maximum acceptable level of Non-Revenue Water (NRW) of 20% prescribed by LWUA thru Resolution No. 444, series of 2009.**

We recommended to the District to improve its efficiency level by significantly reducing water loss to at least the allowable level of 20% through formulation of a more effective and intensive NRW Reduction Plan and Budget.

**5. Reimbursement Expense Receipts were used to liquidate cash advances from Petty Cash Fund instead of Acknowledgement Receipts which is not in accordance with COA Circular 2004-006 dated September 9, 2004 regarding acceptability of evidence of receipt of payment for disbursements.**

We recommended that Management should stop the practice of using RER to liquidate or "pre-liquidate" cash advances given to district personnel as it is not in accordance with COA Circular 2004-006 dated September 9, 2004. Submit proper evidence of receipt of payment such as Acknowledgement Receipts (ARs) to support liquidation of cash advances from the PCF.

**6. Fidelity Bond was not posted or insufficient for accountable officers who handles government cash or property as required by Section 101 of Presidential Decree No. 1445 and Section 7.1 of COA Circular 97-002 dated February 10, 1997 as amended by COA Circular 2006-005 dated July 13, 2006.**

We recommended strict adherence to Section 101 of Presidential Decree No. 1445 and Section 7.1 of COA Circular 97-002 dated February 10, 1997 as amended by COA Circular 2006-005 dated July 13, 2006 for the posting of fidelity bond for accountable officers handling government funds and property. The amount of bond premium should correspond to their maximum accountability as provided for in by Treasury Circular No. 02-2009 dated August 6, 2009. The designated accountant should be prohibited in doing collecting functions in adherence to sound internal control of segregation of duties custody of assets, authorization, approval and recording or reporting of related transactions affecting those assets. Submit a copy of the Fidelity Bonds to the Auditor's Office for information and filing.



**7. Collections were not deposited daily and intact in violation of Section 69 of Presidential Decree No. 1445 and Paragraph 32, Remittances/Deposits Section, Chapter II -Laws and Rules Relevant to Cash Examination of the Revised Cash Examination Manual (COA Memorandum 2013-004 dated July 9, 2013).**

We recommended that collections should be deposited intact the next available banking day. The cashier should be vigilant in her duties in reviewing the remittances given to her by the tellers and should count the money remitted in the presence of the teller and compare it with submitted collection summary to check that it is intact. Any discrepancy should be noted such as missing or cancelled ORs, shortage, and overage in the remittance. Tellers and alternate tellers should be provided with his own account in the collection system. Access to other tellers' account in the collection system should not be allowed. Each teller should be provided with a cash box where they can put their collections and should be surrendered to the cashier together with their collection summary so that mixing up of collections can be avoided. The teller's password to the collection system and combination to the cash box should be written and put in a sealed envelope with access limited to the teller concerned, the cashier and the head of the agency.

**8. KAPWD still accepts Checks from concessionaires which have a history of dishonored checks (NSF Checks) due to insufficiency of funds in violation of COA Memorandum 2013-004 dated July 9, 2013 Chapter II, Section 28, regarding dishonored checks.**

We recommended that a policy be promulgated which adheres strictly to the provisions of COA Memorandum 2013-004 dated July 9, 2013 in refusing to accept check payment from concessionaires which has a history of dishonored checks and accepting only cash or certified check. If the payor is a government entity, check payment should be accepted only when it is accompanied by a bank advice duly stamped received by the drawee bank.

**A. Summary of Total Suspension, Disallowance and Charges as of Year-End**

| Particulars   | Balance,<br>12/31/2018 | CY 2019<br>Issuances | Settlement   | Balance,<br>12/31/2019 |
|---------------|------------------------|----------------------|--------------|------------------------|
| Suspensions   | ₱ ,868,269.41          | ₱ 0.00               | ₱ 983,480.00 | ₱ 1,868,269.41         |
| Disallowances | 2,366,000.00           | 0.00                 | 0.00         | 2,366,000.00           |
| Charges       | 0.00                   | 0.00                 | 0.00         | 0.00                   |

**B. Status of Implementation of Prior Year's Audit Recommendations**

Of the 17 audit recommendations contained in the Annual Audit Report on the Water District for the calendar year 2017, 6 were fully implemented, 9 were partially implemented and 2 remained unimplemented in 2018.

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**PART I –  
AUDITED FINANCIAL STATEMENTS**



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. 10  
Cagayan de Oro City

**OFFICE OF THE SUPERVISING AUDITOR**  
Audit Group CGS - Water Districts and Other CGS Stand-Alone Agencies

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**INDEPENDENT AUDITOR'S REPORT**

**MS. ANGELITA P. ROBLES**

Chairperson, Board of Directors  
Kapatagan Water District  
Kapatagan, Lanao del Norte

**Mr. CLAIR GREBERN U. ELUMIR**

General Manager  
Kapatagan Water District  
Kapatagan, Lanaodel Norte

*Modified-Qualified Opinion*

We have audited the financial statements of the **Kapatagan Water District**, Kapatagan, Lanao del Norte which comprise the Statement of Financial Position as at December 31, 2019 and the related Statements of Comprehensive Income, Cash Flows and Changes in Equity 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 matter described in the Bases for Modified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Kolambugan Water District as at December 31, 2019 and of its comprehensive income and its cash flows for the year ended in accordance with International Financial Reporting Standards. (IFRS).

*Bases for Modified-Qualified Opinion*

As discussed in Part II- Observations and Recommendations of this report, a modified opinion was rendered due to the following:

- a) Physical count of Property, Plant and Equipment was not conducted as mandated by Section 38, Volume I of the Government Accounting Manual (GAM) thus the amount of the fixed assets account balances reflected in the financial statements in the amount of ₱55,575,988.81 is of doubtful validity.
- b) Non-submission of the Result of Physical Count of Inventory duly reconciled with the Supplies Ledger Cards and Stock Cards kept by the Accounting Unit and the Property/Supply Unit respectively as provided by Section C, D and E, Appendix 66, Volume II of the Government Accounting Manual, puts in doubt the validity of the amount of Inventory as reflected in the financial statements of in the amount of ₱4,376,328.29

- c) Water sales for the month of December 2019 amounting to P74,181.97 were not accrued and recognized as income contrary to the Philippine Accounting Standards (PAS) 1 and PAS 18, thus resulting to understatement of income from water sales and related accounts receivable accounts.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the Financial Statements* section of our report. We are independent of the agency in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified opinion.

#### *Key Audit Matters*

Except for the matter described in the *Bases for Modified 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*

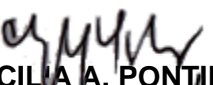
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from 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 a reasonable assurance about whether the financial statements as a whole are free from material misstatement, 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 a guarantee that an audit conducted in accordance with 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 aggregate, they could reasonably be expected to influence the economic decisions of users on the basis of the financial statements.

#### **COMMISSION ON AUDIT**

  
**CECILIA A. PONTILLAS**  
State Auditor V  
Supervising Auditor

February 21, 2019



Republic of the Philippines  
**KAPATAGAN WATER DISTRICT**  
Kapatagan, Lanao del Norte

**STATEMENT OF MANAGEMENT RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of the **Kapatagan Water District, Kapatagan, Lanao del Norte** 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 circumstance.

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

**ANGELITA P. ROBLES**  
Chairman of the Board

Date: February 11, 2020

**LEEVENA S. ESGUERRA**  
Accounting Processor

Date: February 11, 2020

**CLAIR GREBERN U. ELUMIR**  
Acting General Manager

Date: February 11, 2020



**KAPATAGAN WATER DISTRICT  
CONDENSED STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2019**

|                                      | <u>NOTE</u> | <u>2019</u>            | <u>2018</u>            |
|--------------------------------------|-------------|------------------------|------------------------|
| <b>ASSETS</b>                        |             |                        |                        |
| <b>Current Assets</b>                |             |                        |                        |
| Cash and Cash Equivalents            | 3           | ₱ 10,318,816.57        | ₱ 9,764,882.84         |
| Receivables                          | 4           | 6,069,699.35           | 3,515,428.06           |
| Inventories                          | 5           | 4,376,328.29           | 3,888,349.54           |
| Other Current Assets                 | 6           | 9,225.64               | 20,768.12              |
| <b>Total Current Assets</b>          |             | <b>₱ 20,774,069.85</b> | <b>₱ 17,189,428.56</b> |
| <b>Non-Current Assets</b>            |             |                        |                        |
| Property, Plant and Equipment        | 7           | ₱ 53,700,892.77        | ₱ 57,443,438.35        |
| <b>Total Non-Current Assets</b>      |             | <b>₱ 53,700,892.77</b> | <b>₱ 57,443,438.35</b> |
| <b>TOTAL ASSETS</b>                  |             | <b>₱ 74,474,962.62</b> | <b>₱ 74,632,866.91</b> |
| <b>LIABILITIES</b>                   |             |                        |                        |
| <b>Current Liabilities</b>           |             |                        |                        |
| Financial Liabilities                | 8           | ₱ 1,517,551            | ₱ 389,582.28           |
| Inter-Agency Payables                | 9           | 411,889.91             | 647,854.14             |
| Trust Liabilities                    | 10          | 255,224.90             | 225,225.00             |
| <b>Total Current Liabilities</b>     |             | <b>₱ 2,184,665.81</b>  | <b>₱ 1,262,661.42</b>  |
| <b>Non-Current Liabilities</b>       |             |                        |                        |
| Financial Liabilities                | 8           | ₱ 23,896,922.81        | ₱ 28,462,557.05        |
| <b>Total Non-Current Liabilities</b> |             | <b>₱ 23,896,922.81</b> | <b>₱ 28,462,557.05</b> |
| <b>TOTAL LIABILITIES</b>             |             | <b>₱ 26,081,588.62</b> | <b>₱ 27,369,392.42</b> |
| <b>EQUITY</b>                        |             |                        |                        |
| Government Equity                    |             | ₱ 4,000,013.34         | ₱ 4,000,013.34         |
| Retained Earnings/(Deficit)          |             | 44,393,360.66          | 43,263,461.10          |
| <b>Total Equity</b>                  |             | <b>₱ 48,393,374.00</b> | <b>₱ 47,263,474.44</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>  |             | <b>₱ 74,474,962.62</b> | <b>₱ 74,632,866.86</b> |

*(See Accompanying Notes to Financial Statements)*



**KAPATAGAN WATER DISTRICT**  
**CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

|  | <u>NOTE</u> | <u>2019</u>            | <u>2018</u>            |
|--|-------------|------------------------|------------------------|
| <b>Income</b>                            |             |                        |                        |
| Service and Business Income              | 11          | ₱ 37,773,522.34        | ₱ 33,346,022.65        |
| Gains                                    |             | 778,522.74             | 2,150,206.97           |
| <b>Total Income</b>                      |             | <b>₱ 38,552,045.08</b> | <b>₱ 35,496,229.62</b> |
| <b>Expenses</b>                          |             |                        |                        |
| Personnel Services                       | 12          | ₱ 17,109,824.77        | ₱ 14,530,501.52        |
| Maintenance and Other Operating Expenses | 13          | 12,476,723.27          | 12,273,895.49          |
| Financial Expenses                       | 14          | 1,171,883.00           | 1,340,138.00           |
| Non-Cash Expenses                        | 15          | 4,043,895.16           | 4,021,882.49           |
| <b>Total Expenses</b>                    |             | <b>₱ 34,802,326.20</b> | <b>₱ 32,166,417.50</b> |
| <b>Comprehensive Income/(Loss)</b>       |             | <b>₱ 3,749,718.88</b>  | <b>₱ 3,329,812.12</b>  |

*(See Accompanying Notes to Financial Statements)*





**KAPATAGAN WATER DISTRICT  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2019**

|   | Retained<br>Earnings/<br>(Deficit) | Contributed<br>Capital | TOTAL                  |
|---|------------------------------------|------------------------|------------------------|
| <b>BALANCE AT<br/>JANUARY 1, 2018</b>                               | ₱ 39,300,664.15                    | ₱ 4,000,013.34         | ₱ 43,300,677.49        |
| ADJUSTMENTS:  |                                    |                        |                        |
| Add/(Deduct):   | ₱ 0.00                             | ₱ 0.00                 | ₱ 0.00                 |
| <b>RESTATED BALANCE<br/>AT JANUARY 1, 2018</b>                      | <b>₱ 39,300,664.15</b>             | <b>₱ 4,000,013.34</b>  | <b>₱ 43,300,677.49</b> |
| <b>CHANGES IN EQUITY<br/>FOR 2018</b>                               |                                    |                        |                        |
| ADJUSTMENTS:  |                                    |                        |                        |
| Add/(Deduct):   |                                    |                        |                        |
| Comprehensive<br>Income for the year                                | ₱ 3,329,812.12                     | ₱ 0.00                 | ₱ 3,329,812.12         |
| Other Adjustments<br>(Restricted/Water<br>Meter Maintenance<br>Fee) | 632,984.83                         | 0.00                   | 632,984.83             |
| <b>BALANCE AT<br/>DECEMBER 31, 2018</b>                             | <b>₱ 43,263,461.10</b>             | <b>₱ 4,000,013.34</b>  | <b>₱ 47,263,474.44</b> |
| <b>CHANGES IN EQUITY<br/>FOR 2019</b>                               |                                    |                        |                        |
| ADJUSTMENTS:  |                                    |                        |                        |
| Add/(Deduct):   |                                    |                        |                        |
| Comprehensive<br>Income for the year                                | ₱ 3,749,718.88                     | ₱ 0.00                 | ₱ 3,749,718.88         |
| Other Adjustments<br>(Restricted/Water<br>Meter Maintenance<br>Fee) | 695,235.80                         | 0.00                   | 695,235.80             |
| <b>BALANCE AT<br/>DECEMBER 31, 2019</b>                             | <b>₱ 47,708,415.78</b>             | <b>₱ 4,000,013.34</b>  | <b>₱ 51,708,429.12</b> |



**KAPATAGAN WATER DISTRICT  
CONDENSED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

|  | <u>2019</u>            | <u>2018</u>            |
|--|------------------------|------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                            |                        |                        |
| <b>Cash Inflows</b>  |                        |                        |
| Proceeds from Sale of Goods and Services                               | ₱ 240,535.20           | ₱ 410,126.25           |
| Collection of Income/Revenue   | 36,462,935.84          | 35,486,336.35          |
| Collection of Receivables  | 383,488.69             | 384,560.00             |
| Trust Receipts   | 695,235.80             | 633,932.20             |
| Other Receipts   | 453,217.25             | 291,110.59             |
| <b>Total Cash Inflows</b>  | <b>₱ 38,235,412.78</b> | <b>₱ 37,206,065.39</b> |
| Adjustments  | 0.00                   | 0.00                   |
| <b>Adjusted Cash Inflows</b>   | <b>₱ 38,235,412.78</b> | <b>₱ 37,206,065.39</b> |
| <b>Cash Outflows</b>   |                        |                        |
| Payment of Expenses  | ₱ 18,549,918.44        | ₱ 8,453,906.55         |
| Purchase of Inventories  | 1,407,778.18           | 2,266,890.71           |
| Grant of Cash Advances   | 5,988,044.47           | 12,875,689.57          |
| Payments of Accounts Payable   | 2,776,191.54           | 3,965,011.44           |
| Remittance of Personnel Benefit Contributions and Mandatory Deductions | 5,347,976.70           | 4,011,391.57           |
| <b>Total Cash Outflows</b>   | <b>₱ 34,069,909.93</b> | <b>₱ 31,572,889.84</b> |
| Adjustments  | 0.00                   | 0.00                   |
| <b>Adjusted Cash Outflows</b>  | <b>₱ 34,069,909.93</b> | <b>₱ 31,572,889.84</b> |
| <b>Net Cash Provided by/(Used in) Operating Activities</b>             | <b>₱ 4,165,503.45</b>  | <b>₱ 5,633,175.55</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                            |                        |                        |
| <b>Cash Inflows</b>  |                        |                        |
| Receipt of Interest Earned   | ₱ 4,806.16             | ₱ 6,010.97             |
| <b>Total Cash Inflows</b>  | <b>₱ 4,806.16</b>      | <b>₱ 6,010.97</b>      |
| Adjustments  | 0.00                   | 0.00                   |
| <b>Adjusted Cash Inflows</b>   | <b>₱ 4,806.16</b>      | <b>₱ 6,010.97</b>      |
| <b>Cash Outflows</b>   |                        |                        |
| Purchase/Construction of Property, Plant and Equipment                 | ₱ 234,769.88           | ₱ 567,368.70           |
| <b>Total Cash Outflows</b>   | <b>₱ 234,769.88</b>    | <b>₱ 567,368.70</b>    |
| Adjustments  | 0.00                   | 0.00                   |
| <b>Adjusted Cash Outflows</b>  | <b>₱ 234,769.88</b>    | <b>₱ 567,368.70</b>    |
| <b>Net Cash Provided By/(Used In) Investing Activities</b>             | <b>₱ 229,963.72</b>    | <b>₱ (561,357.73)</b>  |

**CASH FLOWS FROM FINANCING  
ACTIVITIES**

|  |                        |                       |
|--|------------------------|-----------------------|
| <b>Cash Inflows</b>  |                        |                       |
| <b>Total Cash Inflows</b>  | ₱ 0.00                 | ₱ <b>0.00</b>         |
| Adjustments  | ₱ 0.00                 | ₱ 0.00                |
| <b>Adjusted Cash Inflows</b>                                     | ₱ 0.00                 | ₱ <b>0.00</b>         |
| <b>Cash Outflows</b>   |                        |                       |
| Payment of Long-Term Liabilities                                 | ₱ 3,381,606.00         | ₱ 3,695,964.00        |
| <b>Total Cash Outflows</b>                                       | ₱ <b>3,381,606.00</b>  | ₱ 3,695,964.00        |
| Adjustments  | 0.00                   | 0.00                  |
| <b>Adjusted Cash Outflows</b>                                    | ₱ <b>3,381,606.00</b>  | ₱ 3,695,964.00        |
| <b>Net Cash Provided By/(Used In) Financing<br/>Activities</b>   | ₱ <b>3,381,606.00</b>  | ₱ (3,695,964.00)      |
| <b>INCREASE/(DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b>      |                        |                       |
|  | ₱ 553,933.73           | ₱ 1,375,853.82        |
| Effects of Exchange Rate Changes on Cash<br>and Cash Equivalents | ₱ 0.00                 | ₱ 0.00                |
| <b>CASH AND CASH EQUIVALENTS,<br/>JANUARY 1, 2019</b>            | ₱ <b>9,764,882.84</b>  | ₱ <b>8,389,029.02</b> |
| <b>CASH AND CASH EQUIVALENTS,<br/>DECEMBER 31, 2019</b>          | ₱ <b>10,318,816.57</b> | ₱ <b>9,764,882.84</b> |



**KAPATAGAN WATER DISTRICT**  
**Kapatagan, Lanao del Norte**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019**

**1. General/Brief Historical Background**

The Kapatagan Water District (KAPWD) is a Government-Owned & Controlled Corporation (GOCC) that was officially created on September 12, 1988 by virtue of SB Res. No. 177-C in accordance with Sec. 6 P.D. 198 of the Provincial Water Utilities Act of 1973.

On October 24, 1989 KAPWD was issued a Certificate of Conditional Conformance (CCC418) by the Local Water Utilities Administration (LWUA).

**2. Summary of Significant Accounting Policies**

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles and standards and pertinent provisions contained in the Commercial Practices Manual for Local Water Utilities Administration and the New Government Accounting system (NGAS).

The accrual method of accounting is adopted for both income and expenses.

In recording expenditures, the voucher system is followed in which vouchers are credited prior to payment and debited when paid.

Property, Plant and Equipment is carried at cost less accumulated depreciation. Depreciation is computed on a straight line method based on the estimated useful life ranging from five (5) to ten (10) years in accordance with COA Circular No. 2003-007 dated December 11, 2003.

**3. Cash and Cash Equivalents**

This account consists of:

| <b>Particulars</b>                           | <b>2019</b>            | <b>2018</b>           |
|--|------------------------|-----------------------|
| Cash on Hand                                 | ₱ 413,376.23           | ₱ 286,549.53          |
| Cash in Bank-Local Currency, Current Account | 4,936,843.44           | 1,561,759.26          |
| Cash in Bank-Local Currency, Savings Account | 4,968,596.90           | 7,916,574.05          |
| <b>Total</b>                                 | <b>₱ 10,318,816.57</b> | <b>₱ 9,764,882.84</b> |

Cash in Bank-Local Currency, Current Account composes the 1<sup>st</sup> Valley Bank (22-00008-5), LBP Account No. 0802-1078-11 and LBP Account no. 0805-0712-14 are the current bank accounts of the district with different purpose; FVB and LBP 1078-11 are the general funds for daily operations of the district while LBP 0712-14 is intended for electronic remittances of HDMF and BIR.

Cash in Bank-Local Currency, Savings Account comprises LBP Account No. 0801`-0610-87 served as the joint savings account between LWUA and KAPWD; FVB Account No. 102-051-121-235 served as trust fund for the amount collected from concessionaires for Water Meter Maintenance fee; LBP Account no. 0802-1169-18 is a savings account for Terminal Leave.

#### 4. Receivables

| Particulars                        | 2019                  | 2018                  |
|------------------------------------|-----------------------|-----------------------|
| Accounts Receivable                | ₱ 4,262,699.35        | ₱ 1,708,428.06        |
| Receivables– Disallowances/Charges | 1,807,000.00          | 1,807,000.00          |
| <b>TOTAL</b>                       | <b>₱ 6,069,699.35</b> | <b>₱ 3,515,428.06</b> |

#### 5. Inventories

| Particulars  | 2019                  | 2018                  |
|--|-----------------------|-----------------------|
| <b>Inventory Held for consumption</b>                  |                       |                       |
| Office Supplies Inventory                              | ₱ 27,000.00           | ₱ 8,595.00            |
| Accountable Forms, Plates & Stickers Inventory         | 72,000.00             | 136,000.00            |
| Non – Accountable Forms Inventory                      | 400                   | 236,670.00            |
| Chemical and Filtering Supplies Inventory              | 90,000.00             | 590,981.76            |
| Other Supplies and Materials Inventory                 | 3,334,751.48          | 2,077,135.30          |
| <b>Semi-Expendable Machinery and Equipment</b>         |                       |                       |
| Semi – Expendable Office Equipment                     | 113,614.54            | 113,614.54            |
| Semi – Expendable Communication Equipment              | 281,475.00            | 281,475.00            |
| Semi – Expendable Other Machinery and Equipment        | 218,963.67            | 218,963.67            |
| <b>Semi-Expendable Furniture, Fixtures &amp; Books</b> | 238,123.60            | 224,914.27            |
| <b>TOTAL</b>   | <b>₱ 4,376,328.29</b> | <b>₱ 3,888,349.54</b> |

#### 6. Other Current Assets

| Particulars | 2019       | 2018        |
|-------------|------------|-------------|
| Prepayments | ₱ 9,225.64 | ₱ 20,768.12 |

#### 7. Property, Plant and Equipment

| Particulars                             | 2019            | 2018            |
|---|-----------------|-----------------|
| <b>Land</b>                             | ₱ 4,229,309.23  | ₱ 3,529,309.23  |
| <b>Land Improvements</b>                | 1,218,292.47    | 1,094,542.47    |
| Accumulated Depreciation                | (54,823.16)     | (0.00)          |
| <b>Infrastructure Assets</b>            |                 |                 |
| Water Supply Systems                    | 6,465,749.45    | 6,465,749.45    |
| Accumulated Depreciation                | (3,511,947.48)  | (3,240,923.28)  |
| Plant – Utility Plant in Service (UPIS) | 60,666,855.48   | 59,820,150.14   |
| Accumulated Depreciation                | (19,494,757.49) | (16,113,169.76) |
| <b>Buildings &amp; Other Structures</b> | 3,522,907.63    | 3,522,907.63    |

| Particulars                                | 2019                   | 2018                   |
|--|------------------------|------------------------|
| Accumulated Depreciation                   | (317,061.68)           | (0.00)                 |
| <b>Other Structures</b>                    | 921,562.03             | 506,709.03             |
| Accumulated Depreciation                   | 0.00                   | 0.00                   |
| <b>Machinery and equipment</b>             |                        |                        |
| Office Equipment                           | ₱ 1,111,624.30         | ₱ 1,085,497.63         |
| Accumulated Depreciation                   | (252,935.45)           | (203,465.80)           |
| Communication equipment                    | 28,191.49              | 28,191.49              |
| Accumulated Depreciation                   | (5,074.38)             | 0.00                   |
| Other Equipment                            | 1,059,820.00           | 961,320.00             |
| Accumulated Depreciation                   | (306,861.70)           | (241,071.70)           |
| <b>Transportation Equipment</b>            | 902,292.00             | 902,292.00             |
| Accumulated Depreciation                   | (710,993.93)           | (674,600.18)           |
| <b>Total Property, Plant and Equipment</b> | <b>₱ 55,575,988.81</b> | <b>₱ 57,443,438.35</b> |

## 8. Financial Liabilities

| Accounts                           | 2019                   | 2018                   |
|------------------------------------|------------------------|------------------------|
| Accounts Payable                   | ₱ 2,074,705.06         | ₱ 389,582.28           |
| Loans Payable - Domestic           | 23,896,922.81          | 26,106,731.05          |
| <b>TOTAL FINANCIAL LIABILITIES</b> | <b>₱ 25,971,627.87</b> | <b>₱ 26,496,313.33</b> |

## 9. Inter – Agency Payables

| Particulars                          | 2019                | 2018                |
|--------------------------------------|---------------------|---------------------|
| BIR                                  | ₱ 33,893.16         | ₱ 255,716.38        |
| GSIS                                 | 300,766.92          | 241,978.27          |
| Pag-ibig                             | 56,841.96           | 123,066.00          |
| Philhealth                           | 20,387.87           | 27,093.49           |
| <b>TOTAL INTER – AGENCY PAYABLES</b> | <b>₱ 411,889.91</b> | <b>₱ 647,854.14</b> |

## 10. Trust Liabilities

| Particulars       | 2019         | 2018         |
|-------------------|--------------|--------------|
| Trust Liabilities | ₱ 255,224.90 | ₱ 225,225.00 |

## 11. Income

| SERVICE AND BUSINESS INCOME         | 2019                   | 2018                   |
|-------------------------------------|------------------------|------------------------|
| Waterworks System Fees              | ₱ 36,741,216.64        | ₱ 32,427,736.10        |
| Interest Income                     | 6,007.70               | 7,633.43               |
| Fines & Penalties – Business Income | 946,598.00             | 831,503.12             |
| Other Business Income               | 79,700.00              | 79,150.00              |
| Other Gains                         | 778,522.74             | 2,150,206.97           |
| <b>TOTAL BUSINESS INCOME</b>        | <b>₱ 38,552,045.08</b> | <b>₱ 35,496,229.62</b> |

## EXPENSES

### 12. Personnel services

| <b>PARTICULARS</b>                                | <b>2019</b>            | <b>2018</b>            |
|---|------------------------|------------------------|
| Salaries and Wages – Regular                      | ₱ 8,447,248.94         | 7,658,984.50           |
| Salaries and Wages – Casual                       | 1,050,638.68           | 1,277,521.39           |
| <b>Other Compensation</b>                         |                        |                        |
| <i>Personnel Economic Relief Allowance (PERA)</i> | 1,098,000.00           | 1,098,000.00           |
| <i>Representation Allowance (RA)</i>              | 132,000.00             | 119,500.00             |
| <i>Transportation Allowance (TA)</i>              | 132,000.00             | 119,500.00             |
| <i>Clothing/Uniform Allowance</i>                 | 276,000.00             | 276,000.00             |
| <i>PEI</i>  | 230,000.00             | 230,000.00             |
| <i>Overtime &amp; Night Pay</i>                   | 446,716.32             | 179,547.12             |
| <i>Year – end Bonus</i>                           | 1,653,298.00           | 1,497,521.00           |
| <i>Cash Gift</i>                                  | 230,000.00             | 230,000.00             |
| <b>Personnel Benefit Contribution</b>             |                        |                        |
| <i>Retirement and Life Insurance Premiums</i>     | 1,121,620.14           | 1,077,498.3            |
| <i>Pag-IBIG Contributions</i>                     | 55,200.00              | 55,200.00              |
| <i>PhilHealth Contributions</i>                   | 119,066.58             | 118,184.12             |
| <i>Employees Compensation Insurance Premiums</i>  | 55,200.00              | 55,197.72              |
| <b>Other Personnel Benefits</b>                   | 1,810,836.11           | 537,847.37             |
| <b>TOTAL PERSONNEL BENEFITS</b>                   | <b>₱ 17,109,824.77</b> | <b>₱ 14,530,501.52</b> |

### 13. Maintenance & Other Operating Expenses

| <b>PARTICULARS</b>  | <b>2019</b>           | <b>2018</b>           |
|---|-----------------------|-----------------------|
| <b>Traveling Expenses</b>                                   | <b>₱ 749,799.64</b>   | <b>₱ 998,566.04</b>   |
| <b>Training and Scholarship expenses</b>                    | <b>₱ 205,300.00</b>   | <b>₱ 439,190.00</b>   |
| <b>Supplies &amp; Materials Expenses</b>                    |                       |                       |
| <i>Office Supplies Expenses</i>                             | 116,780.36            | 63,860.30             |
| <i>Fuel, Oil &amp; Lubricants expenses</i>                  | 430,224.27            | 430,284.66            |
| <i>Chemical &amp; Filtering Supplies expenses</i>           | 59,214.08             | 81,214.56             |
| <b>Total Supplies &amp; Materials Expenses</b>              | <b>₱ 606,218.71</b>   | <b>₱ 575,359.52</b>   |
| <b>Utility Expenses</b>                                     |                       |                       |
| <i>Water expenses</i>                                       | ₱ 31,536.00           | ₱ 31,869.66           |
| <i>Electricity</i>  | 258,085.21            | 237,571.05            |
| <b>Total Utility Expenses</b>                               | <b>₱ 289,621.21</b>   | <b>₱ 269,440.71</b>   |
| <b>Communication Expenses</b>                               |                       |                       |
| <i>Postage &amp; Courier Services</i>                       | ₱ 7,323.00            | ₱ 8,116.00            |
| <i>Telephone expenses</i>                                   | 42,000.00             | 36,973.72             |
| <i>Internet Subscription Expenses</i>                       | 34,787.00             | 41,262.00             |
| <b>Total Communication Expenses</b>                         | <b>₱ 84,110.00</b>    | <b>₱ 86,351.72</b>    |
| <b>Generation, Transmission &amp; Distribution expenses</b> | <b>₱ 4,619,936.81</b> | <b>₱ 4,684,064.74</b> |

| <b>PARTICULARS</b>  | <b>2019</b>            | <b>2018</b>            |
|---|------------------------|------------------------|
| <b>Extraordinary &amp; Miscellaneous expenses</b>             | <b>₱ 620,654.20</b>    | <b>₱ 631,135.55</b>    |
| <b>Professional Services</b>                                  |                        |                        |
| Legal Services  | ₱ 0.00                 | ₱ 41,600.00            |
| Other Professional Services                                   | 25,800.00              | 8,000.00               |
| <b>TOTAL PROFESSIONAL FEES</b>                                | <b>₱ 25,800.00</b>     | <b>₱ 49,600.00</b>     |
|   |                        |                        |
| <b>General Services</b>                                       | <b>₱ 1,185,163.50</b>  | <b>₱ 466,491.00</b>    |
| <b>Repairs &amp; Maintenance</b>                              |                        |                        |
| Repairs & Maintenance - Infrastructure Assets                 | ₱ 1,235,770.20         | ₱ 1,416,488.56         |
| Repairs & Maintenance - Machinery & Equipment                 | 171,183.22             | 149,778.88             |
| Repairs & Maintenance - Transportation Equipment              | 193,254.36             | 343,855.44             |
| Repairs and Maintenance-Other Property, Plant and Equipment   | 586,806.17             | 298,201.74             |
| <b>TOTAL REPAIRS &amp; MAINTENANCE</b>                        | <b>₱ 2,187,013.95</b>  | <b>₱ 2,208,324.62</b>  |
| <b>Taxes, Insurance Premiums &amp; Other Fees</b>             |                        |                        |
| Taxes, Duties & Licenses                                      | ₱ 686,738.37           | ₱ 666,313.53           |
| Insurance expenses  | 41,134.40              | 106,653.06             |
| <b>TOTAL TAXES, INSURANCE PREMIUMS &amp; OTHER FEES</b>       | <b>₱ 727,872.77</b>    | <b>₱ 772,966.59</b>    |
| <b>Other Maintenance and Operating Expenses</b>               |                        |                        |
| Advertising, Promotional & Marketing Expenses                 | ₱ 135,000.00           | ₱ 0.00                 |
| Representation Expenses                                       | 288,359.82             | 327,570.00             |
| Donations   | 67,500.00              | 39,800.00              |
| Directors & Committee Member's Fees                           | 684,372.66             | 725,035.00             |
| <b>TOTAL OTHER MAINTENANCE &amp; OTHER OPERATING EXPENSES</b> | <b>₱ 1,175,232.48</b>  | <b>₱ 1,092,405.00</b>  |
|   |                        |                        |
| <b>TOTAL MAINTENANCE &amp; OTHER OPERATING EXPENSES</b>       | <b>₱ 12,476,723.27</b> | <b>₱ 12,273,895.49</b> |

#### 14. Financial Expenses

| <b>Particulars</b>       | <b>2019</b>           | <b>2018</b>           |
|--------------------------|-----------------------|-----------------------|
| <b>Interest Expenses</b> | <b>₱ 1,171,883.00</b> | <b>₱ 1,340,138.00</b> |

#### 15. Non-Cash Expenses

| <b>Particulars</b>               | <b>2019</b>           | <b>2018</b>           |
|----------------------------------|-----------------------|-----------------------|
| Depreciation                     | ₱ 4,012,222.80        | ₱ 3,996,243.12        |
| Discounts & Rebates              | 31,672.36             | 25,639.37             |
| <b>TOTAL NON – CASH EXPENSES</b> | <b>₱ 4,043,895.16</b> | <b>₱ 4,021,882.49</b> |



**PART II –  
OBSERVATIONS AND RECOMMENDATIONS**

## PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS

### A. FINANCIAL AND COMPLIANCE AUDIT

1. Physical count of Property, Plant and Equipment was not conducted as mandated by Section 38, Volume I of the Government Accounting Manual (GAM) thus the amount of the fixed assets account balances reflected in the financial statements in the amount of ₱55,575,988.81 is of doubtful validity.

Section 38 of Volume 1 of the General Accounting Manual (GAM) provides:

**Sec. 38. Physical Count of Property, Plant and Equipment (PPE).** The entity shall have a periodic physical count of PPE, which shall be done annually and presented on the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) (Appendix 71) as at December 31 of each year. This shall be submitted to the Auditor concerned not later than January 31 of the following year. Equipment found at station and losses discovered during the physical count shall be reported to the Accounting Division/Unit for proper accounting/recording.

In addition, Section 42, Volume 1 of the GAM provides:

**Sec. 42. Accounting and Property Records to be maintained for Property Plant and Equipment (PPE).** The Chief Accountant shall maintain the Property Plant and Equipment Ledger Cards (PPELC) for each category of PPE including work and other animals, livestock etc. The PPELC shall be kept to record promptly the acquisition, description, custody, estimated useful life, depreciation, impairment loss, disposal and other information about the asset. For check and balance, the Property and Supply Office/Unit shall likewise maintain Property Card (PC) for PPE in their custody to account for the receipt and disposition of the same. The balance per PC shall be reconciled with PPELC maintained by the Accounting Division/Unit. They shall also be reconciled with other property records like PAR.

As of December 31, 2020, the balance of Property, Plant and Equipment (PPE) amounted to ₱55,575 as shown below:

| Particulars                    | Gross Amount           | Accumulated Depreciation | Net Amount             |
|--------------------------------|------------------------|--------------------------|------------------------|
| Land                           | ₱ 4,229,309.23         |                          | ₱ 4,229,309.23         |
| Land Improvements              | 1,218,292.47           | ₱ 54,823.16              | 1,163,469.31           |
| Infrastructure Assets          | 67,132,604.93          | 23,006,704.97            | 44,125,899.96          |
| Buildings and Other Structures | 4,444,469.66           | 317061.68                | 4,127,407.98           |
| Machinery and Equipment        | 2,199,635.79           | 564,871.53               | 1,634,764.26           |
| Transportation Equipment       | 908,292.00             | 710,993.93               | 197,298.07             |
| Furniture, Fixtures and Books  | 97,840.00              |                          | 97,840.00              |
| <b>Total</b>                   | <b>₱ 80,230,444.08</b> | <b>₱24,654,455.27</b>    | <b>₱ 55,575,988.81</b> |

Verification and analysis of the accounts as to ownership, valuation and propriety of items composing the respective asset accounts cannot be undertaken as no inventory-taking was conducted and therefore no RPCPPE with corresponding analysis of changes as compared with the individual Property Plant and Equipment Ledger Cards (PPELC) kept by the Accounting unit and Property Cards (PC) kept by the Property and Supply unit, was not submitted to this office.

The District revealed that they have plans to conduct physical inventory of their PPE but because of intervening events or activities, they have not carried it out and therefore no reconciliation to the individual PPELC and PC was undertaken which resulted to no submission the Office of the Auditor of the said report. It was also revealed that Property Acknowledgement Receipt (PAR) or Memorandum Receipt (MR) for fixed assets was not renewed every three (3) years as provided by Section V, paragraph 3 of COA Circular 80-124 dated January 18, 1980.

The actual physical count of assets and its corresponding reconciliation with the accounting records is of paramount importance not only to comply with laws, rules and regulations, ensuring that they are utilized and maintained properly, but also to determine that assets recorded in the books actually exist. As inventory taking is an indispensable procedure for checking the integrity of property and custodianship, reconciliation of said RPCPPE with the Property and Supply unit's PC and the Accounting Units PPELC is indispensable to prove the accuracy of the said account, serving as check and balance or its internal control. Considering the materiality of the amount of the property, plant and equipment accounts in the financial statements and the risk of misstatement attached thereto, physical count of property, plant and equipment and reconciliation of the said accounts should be given utmost importance.

**Recommendation:**

We recommended that physical count of property, plant and equipment should be conducted and reconciliation of Report on the Physical Count of Property Plant and Equipment to the Accounting unit's Property Plant and Equipment Ledger Card and the Property and Supply unit's Property Card be undertaken. The results of such reconciliation should be submitted to the Office of the Auditor as provided by Section 38 and 42, Volume 1 of the Government Accounting Manual. Property Accountability Receipt for these assets should be renewed every three (3) years.

**Management Comment:**

If all the necessary documents needed will be readily available, the management will comply and proceed will the process of Physical count in accordance with the Government Accounting Manual and provide the most truthful and reliable numbers in terms of the validity of the amount of the fixed assets.

**2. Non-submission of the Result of Physical Count of Inventory duly reconciled with the Supplies Ledger Cards and Stock Cards kept by the Accounting Unit and the Property/Supply Unit respectively as provided by Section C, D and E, Appendix 66, Volume II of the Government Accounting Manual, puts in doubt the validity of the amount of Inventory as reflected in the financial statements of in the amount of ₱ 4,376,328.29.**

In filling out the Report of Physical Count of Inventory (RPCI), Section C, D and E, Appendix 66 of Volume II of the Government Accounting Manual (GAM) provides:

*C. The report shall be reconciled with the Supply Ledger Cards (SLCs) and Stock Cards (SCs) maintained by the accounting Division/Unit and Proper and /or Supply Division/Unit, respectively. Any discrepancy shall be verified and/or adjusted accordingly.*

*D. The reports shall be prepared in four (4) copies and certified correct by the Inventory Committee, approved by the Head of Agency or his/her authorized representative, and verified by the COA Auditor. This shall be distributed as follows:*

*E.*

- Original - COA Auditor, through the Accounting Division/Unit*
- Copy 2 - Supply and/or Property Division/Unit*
- Copy 3 - Inventory Officer/Committee*
- Copy 4 - Accounting Division/Unit*

*F. The report shall be submitted to the COA Auditor concerned not later than July 31 and January 31 of each year for the first and second semesters, respectively.*

It can be surmised from the above instructions that physical count of inventory should be conducted semi-annually and a copy of the RCPI showing the reconciliation between Accounting and Supply/Property Division/Unit should be submitted to the Office of the Auditor.

As of December 31, 2020, the balance of Inventory as reflected in the financial statements amounted to ₱ 4,376,328.29 as shown below:

| <b>Particulars</b>                             | <b>Amount</b> |
|--|---------------|
| Office Supplies Inventory                      | ₱ 27,000.00   |
| Accountable Forms, Plates & Stickers Inventory | 72,000.00     |
| Non – Accountable Forms Inventory              | 400.00        |
| Chemical and Filtering Supplies Inventory      | 90,000.00     |
| Other Supplies and Materials Inventory         | 3,334,751.48  |
| Semi – Expendable Office Equipment             | 113,614.54    |

| <b>Particulars</b>                              | <b>Amount</b>         |
|---|-----------------------|
| Semi – Expendable Communication Equipment       | 281,475.00            |
| Semi – Expendable Other Machinery and Equipment | 218,963.67            |
| Semi-Expendable Furniture, Fixtures & Books     | 238,123.60            |
| <b>TOTAL</b>                                    | <b>₱ 4,376,328.29</b> |

The RPCI indicating therein the reconciliation made was not submitted to this office on the required deadlines and therefore verification and analysis of the accounts as to valuation and propriety of items composing the respective inventory accounts cannot be undertaken.

The District maintains that they have indeed undertaken physical count of their inventory but because of intervening events or activities, they have not reconciled it to the individual SLC and PC and therefore did not submit it to the Office of the Auditor. Granting without admitting that the claim of the District is true, no notice was served to the Office of the Auditor per COA Circular 80-124 dated January 31, 1980 of inventory-taking or physical count of inventories. In addition, there is no indication also that the said inventory-taking was done on semi-annually.

The actual physical count of inventory and its corresponding reconciliation with the accounting records and property/supply records is of paramount importance not only to comply with laws, rules and regulations, ensuring that they are utilized and maintained properly, but also to determine that assets recorded in the books actually exist. As inventory taking is an indispensable procedure for checking the integrity of property and supply custodianship, reconciliation of said RPCI with the Property and Supply Unit's PC and the Accounting Units SLC is equally indispensable for accuracy of the account and acts as check and balance or internal control to the said account. Considering the materiality of the amount of the inventory accounts in the financial statements and the risk of misstatement attached thereto, reconciliation of the inventory accounts should be given utmost importance in addition to its inventory taking.

**Recommendation:**

We recommended the submission to the Office of the Auditor a copy of Report on the Physical Count of Inventory, duly reconciled with the Supply Ledger Cards maintained by the Accounting unit and Stock Cards maintained by the Property and Supply unit as provided by Sections C, D and E of Appendix 66, Government Accounting Manual, Volume II. The Auditor or his/her representative should be present when physical count of inventory is to be conducted and therefore notice should be given beforehand when there is such an activity.

**Management Comment:**

With the complexity of the required documents needed and the lack of experience from the part of the Designate Property Custodian we can't submit documents needed just for the sake of submission. The management values the validity of its data and will comply accordingly to the recommendation of COA.

**3. Water sales for the month of December 2019 amounting to ₱74,181.97 were not accrued and recognized as income contrary to the Philippine Accounting Standards (PAS) 1 and PAS 18, thus resulting to understatement of income from water sales and related accounts receivable accounts.**

Philippine Accounting Standards (PAS) 18 provided for the guidelines on measurement, recognition and disclosure requirements of revenue arising from certain types of transactions and events. Revenue is recognized when it is probable that any economic benefit will flow to the entity, and measured reliably.

Further, PAS 1 enumerates the general feature and overall presentation of Financial Statements for the fair presentation and compliance with the Philippine Financial Reporting Standards (PFRS). One of its considerations is the accrual basis of accounting. Accrual basis is the method of recording accounting transactions for revenue when earned and expense when incurred.

Further, accounting procedures requires for accruals made at the end of the accounting period, particularly for affected real accounts such as assets and liabilities, to be reversed on the first day of the following accounting period to avoid double recording of revenues and expenses to facilitate the regular or usual entry of transactions.

Review of District’s billing summary disclosed that water meter reading is cut off every 8th of the month. This means that billed water for 23 days in a 31-month period pertained to the water consumption of concessionaires of the previous month. It was estimated that P2,112,049.05 and P2,186,231.02 out of the reported billing summary for the months of January 2019 and January 2020 respectively pertained to December 2018 and December 2019 water sales thus the recorded income for the year ended 2019 is understated by a net estimate of P74,181.97.

Refer to the table below for the computation of the net understatement:

| <b>Billing period</b>                           | January 2019                           | January 2020                           | Net estimate                                |
|---|--|--|---|
| <b>Water Sales</b>                              | ₱ 2,846,674.80                         | ₱ 2,946,659.20                         |   |
| <b>Portion pertaining to previous month</b>     | 23 out of 31 days                      | 23 out of 31 days                      |   |
| <b>Water Sales pertaining to previous month</b> | ₱ 2,112,049.05*                        | ₱ 2,186,231.02*                        | ₱ 74,181.97*                                |
|   | *(2,846,674.80 x 23/31 = 2,112,049.05) | *(2,946,659.20 x 23/31 = 2,186,231.02) | *(2,112,049.05 -- 2,186,231.02 = 74,181.97) |
| <b>Effect to 2019 Income</b>                    | Overstatement                          | Understatement                         | Understatement                              |

Inquiry revealed that it was the usual practice of the District not to accrue their income and recognize it only after the billing summary was submitted to them. To prevent errors on certain accounts, the agency needs to differentiate between the revenue that they have earned versus revenue that they have not earned yet.

The non-accrual and non-recognition of the accrued income resulted to understatement of both income from water sales and accounts receivable accounts, thereby affecting the accuracy and reliability of the reported revenues for the year ended December 31, 2019.

**Recommendation:**

We recommended that Management start recognizing their accrued income from water sales and to adjust the necessary accounts to reflect a more accurate and reliable balance in the financial statements.

**Management Comment:**

The accounting department will look into the details on the amount that were not accrued and recognized as income and will address any mistake it may have.

**4. The District did not provide Allowance for Doubtful Accounts for Accounts Receivable from water sales totaling ₱3,663,351.17 as of December 31, 2019, respectively, contrary Sec. 9 of the Government Accounting Manual (GAM), Vol. I thus, casting doubts on the fairness of the presentation of the financial statements.**

Sec. 9. of the GAM, Vol. I provides that:

*“When an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense (impairment losses), rather than as an adjustment of the amount of revenue originally recognized.*

*Entities shall evaluate the collectibility of accounts receivable on an ongoing basis based on historical bad debts, customer/recipient credit-worthiness, current economic trends and changes in payment activity. An allowance is provided for known and estimated bad debts.”*

Review of the District’s Aging of Accounts Receivables disclosed that the District has long outstanding receivables amounting to P394,527.38 and remained in the asset account for over 4 years. Interview with the Management revealed that they have a 5-day waiting policy for the concessionaires to settle their bills before the District finally cuts off their water supply. Although the District has already disconnected the water supply and pulled out the water meters for these concessionaires, they did not set up an Allowance for Impairment nor a Bad debts account to charge the uncollectible amounts.

The District did not set up the Allowance for Doubtful Accounts and related bad debts expense as they did not realize the importance of the said account which could aid management in making financial decisions closely related to revenue generation and cash flow.

The failure to set up an allowance for impairment of accounts receivable affects the fairness of the presentation of Accounts Receivable in the financial statements as it did not show the possibility of its non-collection.

**Recommendation:**

We recommended that Management employ the accounting policy based on Sec. 9 of the Government Accounting Manual (GAM), Vol. on setting up Allowance for Doubtful Accounts and request for write-off of dormant accounts with COA, if necessary.

**Management Comment:**

KAPWD management were expecting that those receivables over four years will still be paid for by the Concessionaires but since it wasn't realized, the management will take action based on Sec 9 of Government Accounting Manual.

**5. The District did not adhere to Republic Act No. 656 (Property Insurance Law) to insure their properties with a book value or replacement value of ₱54,461,698.56 thus exposing District property to unindemnifiable damage, loss due to fire, earthquake, storm, or other casualty brought by fortuitous events (Acts of God) and/or force majeure.**

Section 5 of Republic Act 656 or the Property Insurance Law provides:

*Section 5. Every government, except a municipal government below first class, is hereby required to insure its properties, with the Fund against any insurable risk herein provided and pay the premiums thereon, which, however, shall not exceed the premiums charged by private insurance companies: Provided, however, That the System reserves the right to disapprove the whole or a portion of the amount of insurance applied for: Provided, further, That such property or part thereof as may not be insurable or acceptable for insurance may be insured with any private insurance company. A municipal government below first class may upon application insure its properties in the Fund under such rules and regulations as the System may prescribe.*

As can be gleaned from above, the Government Service Insurance System (GSIS) is the official government insurer and provides insurance coverage to government assets and properties that have government insurable interests. Insurable interest, as defined in RA No. 10607 (PD No. 612, as amended), otherwise known as the Insurance Code and Administrative Order No. 33 mean every interest in property, whether real or personal, or any relation, thereto, or liability in respect thereof, of such nature that a contemplated peril might directly damnify the insured.

In this connection, COA Circular 2018-002 dated May 31, 2018 was issued by the Commission reiterating adherence to RA No. 656 and to requiring government agencies to



submit the Property Inventory Form (PIF) to the GSIS and to the Office of the Supervising Auditor/Audit Team Leader not later than April 30 of each year.

Examination of records reveal that the District has properties that have insurable interest having a book value or replacement value in the amount of ₱ 54,559,538.56 as shown below:

| <b>Particulars</b>                  | <b>Book Value</b>      |
|-------------------------------------|------------------------|
| Infrastructure Assets, net          | ₱ 44,125,899.96        |
| Buildings and Other Structures, net | 4,127,407.98           |
| Machinery and Equipment, net        | 1,634,764.26           |
| Transportation Equipment            | 197,298.07             |
| Furniture, Fixtures and Books       | 97,840.00              |
| Inventories                         | 4,376,328.29           |
| <b>Total</b>                        | <b>₱ 54,559,538.56</b> |

Of the above-mentioned properties, only the motor vehicles or transportation equipment was insured. The rest of the properties of the District with a book value of amounting to ₱54,461,698.56 was not covered by insurance.

Inquiry revealed that the District did not know about insuring properties with the GSIS other than the transportation equipment/motor vehicles as it is required when renewing the registration of the said vehicles. They have no knowledge either of the submission of PIF to GSIS and COA.

In these times of uncertainty, adherence to Section 5 of RA 656 by the District is important not because it is in compliance with laws, rules and regulations and provides the GSIS additional premium income for the General Insurance Fund (GIF), but it also protects the District against any damage or loss properties or assets and interests due to fire, earthquake, storm, or other fortuitous events/casualty.

**Recommendation:**

We recommended that adherence to Section 5 of RA 656 to protects the District against any damage or loss properties or assets and interests due to fire, earthquake, storm, or other fortuitous events/casualty. Submit yearly the Property Inventory Form to the Government Service Insurance System and to the Office of the Supervising Auditor/Audit Team Leader every 30<sup>th</sup> day of April.

**Management Comment:**

We already made a step to get our Properties Insured in accordance to the Law, especially those of involved in the transmission of our water but GSIS were requiring us to give a Title of the Land which we can't give since the Land which our facilities situated is not owned by KAPWD at the moment, but the management will do everything to comply all the necessary Properties that needs to be Insured.

**6. Regular expenses amounting to ₱381,416.92 were paid out from the Petty Cash Fund which is not in accordance with Section 4.3.2 of COA Circular 97-002 dated February 10, 1997.**

COA Circular 97-002 allows for cash advances for petty operating expenses that are for small payments for maintenance and operating expenses which cannot be paid conveniently by check or are required to be paid immediately. Section 4.3.2 of the same COA circular provides that the cash advance shall not be used for payment of regular expenses, such as rentals, subscriptions, light and water and the like.

Review of Petty Cash Fund disbursements revealed that from the period of April 4, 2018 to September 17, 2019, revealed the following:

| <b>Expenses</b>  | <b>Amount</b>       |
|--|---------------------|
| Rental (Backhoe and jackhammer)  | ₱ 4,500.00          |
| Purchase of Materials for Repairs and Maintenance of Concessionaires' water connection | 231,316.59          |
| Purchase of Office Supplies  | 80,419.20           |
| Fuel for Motor Vehicles  | 15,281.13           |
| Other Allowances (OJT, Guards and Meter Readers)-without payroll                       | 49,900.00           |
| <b>Total</b>   | <b>₱ 381,416.92</b> |

Examination and inquiry revealed that these disbursements, such as fuel and rental of equipment, occurred several times during the period was considered minimal in amount and therefore was charged to the Petty Cash Fund. Inquiry further revealed that materials for repairs and maintenance for concessionaires' water connection was not kept in stock and was purchased from nearby stores when needed. Office supplies also was not always kept in stock and therefore was purchased from nearby stores when needed. The practice for giving allowances for the guards, on-the-job trainees and meter readers was an established practice from the previous general manager and was continued by the current manager. Emergency repair of pipelines due to damage from road-widening projects is the reason behind the rentals of backhoe and jackhammer.

The charging of regular expenses to the petty cash fund contravenes Section 4.3.2. of COA Circular 97-002 dated February 10, 1997. Regular expenses are usually planned and budgeted and, in case of office supplies, materials and supplies for repairs and maintenance of water connections, stocking is allowed for two to three months consumption. Bulk purchases of supplies and materials are more advantageous to government in terms of discounts, hedge for price escalation, and collection of taxes from suppliers. Although stocking of fuel cannot be done by the district for lack of facilities, credit line can be established from nearby fuel stations, where withdrawal slips can be issued for fueling of motor vehicles. Appropriate taxes can therefore be collected when its time for their payment.

**Recommendation:**

We recommended that Management should stop the practice of charging regular expenses to petty cash fund. Purchase office supplies, supplies and materials in bulk, enough for two to three months consumption which is more advantageous to the government. Establish credit line from nearby gasoline stations taking into consideration the provisions of RA 9184 and other conditions advantageous to the District and the government. Take into consideration emergency repairs and rentals of equipment in planning and drawing up the budget for the District.

**Management Comment:**

The Management is gradually emphasizing the purchase of Office supplies and materials away from the petty cash fund and will undergo procurement process according to the provisions of RA 9184.

**7. The estimated 611,670.68 cu.m. of unaccounted water incurred by the District costing P1,220,950.36 for CY 2019 is 8.78% more than the maximum acceptable level of Non-Revenue Water (NRW) of 20% prescribed by LWUA thru Resolution No. 444, series of 2009.**

To address the concern of the rising level of Non-Revenue Water (NRW) or water losses for all Water Districts, LWUA through BOT Resolution No. 444, series of 2009 pegged the maximum acceptable level of NRW at 20%.

Moreover LWUA Memo Circular No. 014-10 also provides that:

*“There is a need for Water Districts to reduce the Non-Revenue Water (NRW) in order to enhance its operational efficiency and improve financial viability. All Water Districts are therefore enjoined to periodically conduct performance audit of water meters being used by customers to ensure its accuracy.”*

Review of the District’s Monthly Data Sheets on Water Production for CY 2019 disclosed that the District has produced 2,078,405.68 cu.m. for a total production cost of P4,148,686.96 approximately (P2.00/cu.m.), of which, only 1,466,735.00 cu.m. were accounted/billed, thereby resulting to an unaccounted water loss of 611,670.68 cu.m. or 28.78.00% of the water pumped. Although the District has decreased their NRW from the 2017 level of 33.92%, the current level is still above the 20% acceptable level set by LWUA, thus this reiteration.

Water losses are normally attributed to leakages, water pressure problems; and/or apparent loss due water theft and metering inaccuracies, and the lack of a more effective and intensive strategic measure to address these causes normally results to excessive NRW.

High level of NRW is detrimental to the financial viability of the Water District. The 28.78% NRW means an unrecoverable production cost of 1,220,950.36 and revenue loss to the

District because the same could have generated an additional water sales estimated at P10,630,836.42 assuming it was sold at a minimum residential rate of P17.38.

**Recommendation:**

We recommended to the District to improve its efficiency level by significantly reducing water loss to at least the allowable level of 20% through formulation of a more effective and intensive NRW Reduction Plan and Budget.

**Management Comment:**

KAPWD has implemented plans as to lowering NRW the last couple of years ago and it has taken effect with good results but the NRW of 2019 has wildly bounced back and forth because of the ongoing DPWH Road Widening Projects which contributed heavily on the totality of the increasing NRW of KAPWD. To combat this KAPWD lays out plans to lower the NRW of 2020

**8. Reimbursement Expense Receipts were used to liquidate cash advances from Petty Cash Fund instead of Acknowledgement Receipts which is not in accordance with COA Circular 2004-006 dated September 9, 2004 regarding acceptability of evidence of receipt of payment for disbursements.**

Recognizing that there are cases where the recipient is not engaged in business and, therefore does not have pre-printed official receipts to issue as proof of receipt, the Commission issued Circular 2004-006 dated September 9, 2004 which enumerated among others, the acceptability of Reimbursement Expense Receipts and Acknowledgement Receipts as proof of receipt of payment. The conditions to which said proofs of receipt are to be used were stated on Sections 3.3.1 (b) and (c) of the said Circular were as follows:

- a) *Reimbursement Expense Receipt (RER) — The RER shall be acceptable for disbursements where the payee is not a business entity required by the Bureau of Internal Revenue to issue ORs and the money is advanced by the official concerned and the expense is authorized to be reimbursed by the government agency concerned.*
- b) *Acknowledgment Receipt (AR) — The AR shall be acceptable for disbursements made from the cash advance of the disbursing official where the payee is not a business entity required by the Bureau of internal Revenue to issue ORs. It may be printed, typewritten or handwritten and must bear the signature of the payee.*

As can be understood from the above provisions, the RER can be used only if it is authorized by the government agency and paid out of the personal money of the agency official.

COA Circular 2017-001 dated June 19, 2017 sets the amount that can be reimbursed without receipts to Php 300.00 and replaced the RER with Certification of Expenses not Requiring Receipts. Still, said certification is to be used only when reimbursing expenses, that is, only in situations where no cash advance was taken out and it was paid out of the personal money of the employee concerned.

In cases where a cash advance was taken by a government official, an Acknowledgement Receipt (AR) is to be given as proof of payment as provided by COA Circular 2004-006 dated September 9, 2004. The AR may be printed, typewritten or handwritten and must bear the signature of the payee. It must also contain the following data content to support the disbursement: (a) name of government official making the payment; (b) date of payment; (c) name of recipient; (d) address of the recipient; (e) purpose of the payment; and (f) amount of payment received.

Review of Petty Cash Fund disbursements revealed that from the period of April 4, 2018 to September 17, 2019, a total of Php 1,056,986.54 have been disbursed. Of the total disbursements, Php 269,392.35 or 25% was for cash advances from the said fund which was liquidated using the Reimbursement Expense Receipts (RER) as documentary support. These RERs were used for various disbursements such as fares and other consumables to be used in the day to day operations of the district. It was observed that the PCF was used for regular expenses of the district such as per diems, allowances, office supplies, and purchase of repair materials. RERs were also used when official receipt for the disbursement was lost.

Inquiry revealed that the use of RER for PCF disbursements was an accepted and long-standing practice especially when the amount was considered minimal by the management, that is 300 Pesos and below, or for disbursements where the payee have no official receipt.

The use of RER for liquidating cash advances from the PCF is not in accordance with COA Circular 2004-006. The RER also should not be used to replace lost official receipts as it is against the aforementioned circular. The PCF should not be used for regular expenses of the agency. Notice of Suspensions will be issued until proper supporting documents are submitted to liquidate said cash advances for fares.

**Recommendation:**

We recommended that Management should stop the practice of using RER to liquidate or “pre-liquidate” cash advances given to district personnel as it is not in accordance with COA Circular 2004-006 dated September 9, 2004. Submit proper evidence of receipt of payment such as Acknowledgement Receipts (ARs) to support liquidation of cash advances from the PCF.

**Management Comment:**

The old practice of RER used to liquidate cash advances were inadvertently accepted before knowing it was right and will disregard immediately. Personnel involve will be advised to accept only Official Receipt and Receipt accepted by COA.

**9. Fidelity Bond was not posted or insufficient for accountable officers who handles government cash or property as required by Section 101 of Presidential Decree No. 1445 and Section 7.1 of COA Circular 97-002 dated February 10, 1997 as amended by COA Circular 2006-005 dated July 13, 2006.**

Fidelity Bond is an insurance of bondable public officer under the Fidelity Fund to assure faithfully performance all the duties imposed by law upon him and for faithful account of all funds and public property coming into his possession, custody of control.

Section 101 of Presidential Decree No. 1445 mandates that:

*“Section 101. Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law and shall be properly bonded in accordance with law.”*

In relation thereto, Section 7.1 of COA Circular 97-002 dated February 10, 1997 as amended by COA Circular 2006-005 dated July 13, 2006 provides:

*"7.1. Each accountable officer whose total cash accountability is not less than P5,000 shall be bonded. The amount of bond shall depend on the total accountability of the officer fixed by the Head of the Agency. An official or employee who has both money and property accountability shall be bonded only once to cover both accountabilities, but the amount of bond shall be in accordance with the Schedule issued by the Bureau of Treasury."*

The Kapatagan Water District have 6 personnel who can access the collection system of the district and handles cash such as the cashier, alternate cashiers, the Petty Cash Fund custodian, tellers and alternate tellers and have posted fidelity bonds for such positions

| Name                       | Position                            | Approved Amount of Bond | Maximum Cash Accountability  |
|----------------------------|-------------------------------------|-------------------------|--|
| 1. Simeon, Leonita B.      | • Cashier D                         | 100,000.00              | 250,000.00   |
| 2. Manatom, Jr. Roberto R. | • Engineer B<br>• Alternate Cashier | 125,000.00              | Cannot be determined as bond premium is not in accordance to the schedule provided by Treasury Circular No. 02-2009 dated August 6, 2009 |

| Name  | Position   | Approved Amount of Bond | Maximum Cash Accountability |
|---|--|-------------------------|-----------------------------|
| 3. Ignacio, Othello P.<br><i>(Teller since CY 2017 but no fidelity bond was posted for him for previous years. Posted bond for CY 2019)</i> | <ul style="list-style-type: none"> <li>• Data Encoder</li> <li>• Teller</li> </ul>   | 75,000.00               | 100,000.00                  |
| 4. Sumapig, Jennifer A.)<br><i>(Teller since CY 2018 but no fidelity bond was posted for previous years. Posted bond for CY 2019)</i>       | <ul style="list-style-type: none"> <li>• Admin Asst. C/</li> <li>• Teller</li> </ul>   | 75,000.00               | 100,000.00                  |
| 5. Devaras, Cheriebelle T.  | <ul style="list-style-type: none"> <li>• Minutes Officer B</li> <li>• PCF Custodian</li> <li>• Alternate Teller</li> </ul>                 | 75,000.00               | 100,000.00                  |
| 6. Carreon, Jr. Raul P.   | <ul style="list-style-type: none"> <li>• Admin. Services Asst. C</li> <li>• Alternate Teller</li> <li>• Alternate PCF Custodian</li> </ul> | 75,000.00               | 100,000.00                  |

As can be shown above table, the alternate cashier who functions as such if the cashier is absent or on leave, has greater bond premium than the regular cashier itself. His bond premium also is not in accordance with the revised bond schedule provided by Treasury Circular No. 02-2009 dated August 6, 2009. Inquiry revealed that other KAPWD personnel who has access to cash or is accountable for District property is not bonded such as the designated as Property and Supply Officer.

Review of collections revealed that the designated Accountant acted as teller 11 times (see Annex A – Schedule 6) in the absence of tellers and alternate tellers. As designated accountant, she has access to District’s accounting records and her access to collections is a violation of sound internal control of segregation of duties in the custody of assets, authorization, approval and recording or reporting of related transactions affecting those assets.

Further review of the collections of the District revealed that there are many instances where an accountable officer collected or has custody of funds above his or her maximum accountability (See Annex A schedules 1 to 5 for details):

| <u>Accountable Officer</u> | <u>Incidence where Collection Exceeds Maximum Accountability</u> |
|----------------------------|--|
| 1. Ignacio, Othello P.     | 71   |
| 2. Simeon, Leonita B.      | 65   |
| 3. Sumapig, Jennifer A.    | 50   |

| <u>Accountable Officer</u> | <u>Incidence where Collection Exceeds<br/>Maximum Accountability</u> |
|----------------------------|--|
| 4. Carreon, Jr. Raul P.    | 27   |
| 5. Devaras, Cheriebelle T. | 24   |

Although management is aware that the bonding requirement for its accountable officers may be lacking, the one who prepares the applications only copied the previous year's applications and have them signed by the accountable officers involved and the head of the agency, not knowing that there is a Bureau of Treasury's regulation on bond premiums which is based on the maximum cash or property accountability. Lack of knowledge is also the reason why the Property and Supply Officer along with other personnel who handles cash was not bonded. The Bureau of Treasury on the other hand, will just accept and approved the applications for fidelity bonds without any review as they rely fully on management's discretion or recommendation.

The fidelity bond ensures replacement for losses due to defalcations, shortages, and unrelieved losses in the accounts of bonded public officers. It is also for the payment of fees and costs incident to civil proceedings brought against them for improper or unauthorized use or misapplication, by himself or any person who he may be responsible, of public property including damages or deterioration due to negligence in the use of such property whether it is at his custody at that time or not. It also covers cost of civil proceedings against accountable officers for losses resulting from unlawful deposit, use or application including losses attributable to negligence in the keeping of public funds. Non-adherence to the bonding requirement of the law puts the funds and property of the District at risk for unindemnifiable loss in cases of the aforementioned situations.

**Recommendation:**

We recommended strict adherence to Section 101 of Presidential Decree No. 1445 and Section 7.1 of COA Circular 97-002 dated February 10, 1997 as amended by COA Circular 2006-005 dated July 13, 2006 for the posting of fidelity bond for accountable officers handling government funds and property. The amount of bond premium should correspond to their maximum accountability as provided for in by Treasury Circular No. 02-2009 dated August 6, 2009. The designated accountant should be prohibited in doing collecting functions in adherence to sound internal control of segregation of duties custody of assets, authorization, approval and recording or reporting of related transactions affecting those assets. Submit a copy of the Fidelity Bonds to the Auditor's Office for information and filing.

**Management Comment:**

The management will review and take action as to the corresponding amount of bond premium for their maximum accountability of accountable officers. Accountants will be prohibited from any collecting functions and will submit a copy of Fidelity Bonds to the Auditor's Office for information and filling.



**10. Collections were not deposited daily and intact in violation of Section 69 of Presidential Decree No. 1445 and Paragraph 32, Remittances/Deposits Section, Chapter II -Laws and Rules Relevant to Cash Examination of the Revised Cash Examination Manual (COA Memorandum 2013-004 dated July 9, 2013).**

Section 69 of PD 1445 provides that public officers authorized to receive and collect money arising from taxes, revenues, or receipts of any kind shall remit or deposit intact the full amount so received and collected by them to the treasury of the agency concerned and credited to the particular accounts to which the said money belong.

The frequency of depositing collections is determined by travel time and amount of accumulated collections. Paragraph 32, Remittances/Deposits Section, Chapter II – Laws and Rules Relevant to Cash Examination of the Revised Cash Examination Manual (COA Memorandum 2013-004 dated July 9, 2013) states:

*All Collecting Officers (COs) shall deposit intact all their collections, as well as collections turned over to them by sub-collectors/tellers, with authorized government depository bank (AGDB) daily or not later than the next banking day. Where collections are minimal and daily deposit thereof becomes costly and impractical, the COs shall deposit their collections at least once a week, or as soon as the collections reach P10,000.00. They shall record all deposits made in the Cash Receipts Record (CRR)."*

The Kapatagan Water District has a computerized collection system where a particular teller will log in to his or her account and thus collections can be pinpointed to a particular collector. At the end of the day, the teller would print out his or her collection report and submit it to the cashier. The cashier will then review if the amount remitted is equal to the teller's summary/report and sign the said report. These remittances from the teller will then be deposited the next banking to the authorized government depository bank at LBP Tubod-Baroy Branch or LBP-Kapatagan Branch where they recently opened an account. Review of collections and deposits for the period covering April 4, 2018 to September 10, 2019 revealed that collections were not deposited intact the next available banking day in 41 instances with delays ranging from 4 days to 6 months (See Annex A for details).

Inquiry revealed that delays in the deposit is due to late remittance of some tellers of their collection to the cashier. As to who the particular teller is, cannot be pinpointed. It turned out that tellers can access another collector's account in the District's Collection System thus even if the particular teller is not around, it can be used by another teller. It is also revealed that the cashier does not review immediately the tellers' remittances to her. This is due to the fact that at the end of the day, the cashier have to rush home to do his domestic duty to her family.

Review of the Cashier's Collection Summary (CCS) is fully supported by the tellers' collection summary but the said summary is not signed by the cashier as to its review and does not indicate whether the collections given to her intact. As the teller's summary is usually reviewed the next day before depositing the collections to the bank, all collections will be mixed up and it will be hard to pinpoint whose remittance is intact or whose

remittance is short. The any discrepancy will be covered up in the following days, weeks or months by over- or under-remittance/deposit with the erring officer still not owning up to it.

Non-remittance or non-deposition of funds is considered a “prima facie” presumption under Article 217 of the Revised Penal Code that such funds have been malversed or used personally by the teller or cashier for his own benefit. Failure to account shall likewise constitute violation of Article 218 of the Revised Penal Code and of Section 89 of PD 1445 which is punishable under Section 128 of the same Code. Thus the teller or cashier can be subjected to administrative and criminal charges for failure to remit or deposit it intact.

**Recommendation:**

Collections should be deposited intact the next available banking day. The cashier should be vigilant in her duties in reviewing the remittances given to her by the tellers and should count the money remitted in the presence of the teller and compare it with submitted collection summary to check that it is intact. Any discrepancy should be noted such as missing or cancelled ORs, shortage, and overage in the remittance. Tellers and alternate tellers should be provided with his own account in the collection system. Access to other tellers’ account in the collection system should not be allowed. Each teller should be provided with a cash box where they can put their collections and should be surrendered to the cashier together with their collection summary so that mixing up of collections can be avoided. The teller’s password to the collection system and combination to the cash box should be written and put in a sealed envelope with access limited to the teller concerned, the cashier and the head of the agency.

**Management Comment:**

KAPWD will lay out measures and a system to ensure that the collection will be deposited daily with the guidance of the recommendation set forth by the COA eliminating discrepancies and adhering transparency to both Collector/Cashier and Management. Personnel involve will be oriented to the system set by the recommendation of COA.

**11. KAPWD still accepts Checks from concessionaires which have a history of dishonored checks (NSF Checks) due to insufficiency of funds in violation of COA Memorandum 2013-004 dated July 9, 2013 Chapter II, Section 28, regarding dishonored checks.**

Chapter II, Section 27 to 28 of COA Memorandum 2013-004 (Cash Examination Manual) dated July 9, 2013 regarding dishonored checks states:

*27. When a check drawn in favor of the government is not accepted by the drawee for any reason, the drawer shall continue to be liable for the sum due and all penalties resulting from delayed payments. Where the reason for non-acceptance by the drawee bank is insufficiency of funds, the drawer shall be criminally liable therefor (Section 67(2), Presidential Decree No. 1445).*

28. *Whenever a payor has a record of a previously dishonored private check drawn by him in payment of taxes and dues, even if such check has already been settled, any private check presented by him shall no longer be accepted. In such case, the payor shall be required to pay only in cash or by certified check (Section 80, GAAM Vol 1).*

*Each agency head, or treasurer, in the case of local government units, shall make a list of payors whose checks have been dishonored and shall circularize the list to all COs under his jurisdiction.”*

Review of collections of the agency revealed that there is a discrepancy between the Cashier's Collection Summary (CCS) and the General Ledger (GL) account in the crediting/depositing the collection account amounting to Php 6,425.55 on March 7, 2019. Inquiry revealed that this discrepancy is due to returned check of Wash and Go Car Care, a concessionaire of the district. This returned check was later made good on March 14, 2019. It was revealed further that this is not the first time that the said concessionaire paid in check which was later not accepted by the bank due to insufficiency of funds.

Inquiry further revealed that several concessionaires such as the Kapatagan National High School, the Municipality of Nunungan and other individual concessionaires have also issued checks as payments but was later not accepted by the bank or dishonored by the bank. All in all, the District accepted checks which was dishonored by the bank amounting to Php 146,767,46 in the current year. These checks were later made good or was replaced by cash the said concessionaires.

The issuance of a check which was later dishonored by the bank and is a criminal act which results to loss of confidence in the honesty of the payor by the government. Batas Pambansa (BP) 22 or commonly referred to as Bouncing Checks Law punishes any person who makes or draws and issues any checks to apply on account or for value, knowing at the time of issue that he does not have sufficient funds in or credit with the drawee bank. Even though if this check was made good by the drawer, he can still be sued for committing a criminal act.

The non-acceptance of check payment, except when it is a certified check, from a person who has a history of NSF check issuance is a good policy as it assures that any obligation to the government will be collected on time and prevents the commission of another criminal act which has a high probability to happen again in the future.

**Recommendation:**

We recommended that a policy be promulgated which adheres strictly to the provisions of COA Memorandum 2013-004 dated July 9, 2013 in refusing to accept check payment from concessionaires which has a history of dishonored checks and accepting only cash or certified check. If the payor is a government entity, check payment should be accepted only when it is accompanied by a bank advice duly stamped received by the drawee bank.

**Management Comment:**

KAPWD accepts checks especially those of government entity before knowing in good faith that it has sufficient funds. KAPWD will now start promulgating stricter measures as to accepting checks either by private individuals or government entity

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

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

We made a follow-up on the action taken by the District to implement the recommendations of CY 2018 AAR and noted the following:

| <b>Status of Implementation</b> | <b>No. of Recommendations</b> |
|---------------------------------|-------------------------------|
| Fully Implemented               | 6                             |
| Partially Implemented           | 10                            |
| Not Implemented                 | 2                             |

| <b>Ref.</b>         | <b>Audit Observations</b>   | <b>Audit Recommendations</b>  | <b>Status of Implementation</b>  |
|---------------------|---|---|--|
| 2019-003<br>(KAPWD) | The validity and reliability of the Loans Payable-LWUA account amounting to Php 27,305,440.05 as of June 30, 2018 could not be ascertained due to the non-reconciliation of the balance in the District's books of account with the balance per records of LWUA which is not in accordance to Par. 29 of PAS 1 and Sec. 111 of PD 1445. | We recommend that Management confer with LWUA and reconcile the differences in their books in order to reflect the correct amount of Loans Payable-LWUA account and record the appropriate adjustments. | Partially Implemented<br><br>It happens due to the NLIF released which was supposedly 50% grant and 50% loan without interest which unfortunately disallowed by the auditors of LWUA. That said disallowed grant resulted to un-reconciled balance in the books of the district with the LWUA's records. However, by CY 2019, the district & LWUA agreed to have a new MOA regarding NLIF loan and a new amortization schedule will be made for CY 2020. The adjustments will then be recorded right after |

| Ref.                | Audit Observations   | Audit Recommendations   | Status of Implementation                     |
|---------------------|--|---|--|
|                     |  |   | a newly schedule will be received from LWUA. |
| 2019-003<br>(KAPWD) | The District paid Community Tax and Business Permit for the CY 2018 in the amount of Php 15,675.00 in contravention with Section 46 of PD 198 or Provincial Water Utilities Act of 1978 and Section 193 of RA 7160 or the Local Government Code of the Philippines.  | It is recommended that a dialogue should be conducted between the District and the municipality for its information and the payment of community tax and business permit be discontinued as contravenes the Section 46 of PD 198 and Section 193 of RA 7160.                    | Fully Implemented                            |
| 2018-011-KapWD      | P8,000.00 worth of expenses disbursed out of the Petty Cash Fund were not supported with any documents to prove its propriety, contrary to the 6th fundamental principle for every government financial transaction and operation prescribed under Section 4 of the State Audit Code of the Philippines (PD 1445). | We recommend to the District through the Petty Cash Fund Custodian and the Accounting Office to submit the necessary supporting documents on the subjected transactions, and to ensure that all present and future claims against the Petty Cash Fund are adequately supported. | Partially Implemented                        |

| Ref.             | Audit Observations  | Audit Recommendations   | Status of Implementation |
|------------------|---|---|--------------------------|
| 2018-012-KapWD   | The Collecting Officers/Tellers do not maintain Cash Receipts Record and Report of Accountability for Accountable Forms in compliance with Section 40 and Section 17(k) of GAM, Vol I violating the internal control in records maintenance.                            | We recommend that the Management (a) stop the temporary designation of accountable officers especially those holding crucial positions like cash collections; (b) affix the period of designation to be at least 1 year, but preferably of longer period; and (c) require the designated officer to maintain a Cashbook/Cash Receipts Record or its equivalent and prepare Monthly Report of Accountability for Accountable Forms.  | Fully Implemented        |
| 2019-001 (KAPWD) | Lack of meticulous and judicious planning in the preparation of the District's Annual Procurement Plan (APP) leads to the use of Alternative Method of Procurement in violation of Section 10 of the Implementing Rules and Regulation (IRR) of Republic Act (RA) 9184. | Management should prepare its Project Procurement Management Plan (PPMP) and Annual Procurement Plan (APP) in accordance with the Section 7 of the IRR of RA 9184 keeping in mind that the default mode of procurement is public bidding in accordance with Section 10 of the same IRR. Alternative methods of procurement should be used only when the conditions for their utilization are met. The BAC should recommend the method of procurement which is to be approved by the HOPE. BAC Resolutions must be supported by concrete evidences that show the | Fully Implemented        |



| Ref.             | Audit Observations   | Audit Recommendations  | Status of Implementation |
|------------------|--|--|--------------------------|
|                  |  | existence of conditions for the alternative methods of procurement such as certifications, responses to letters of inquiry sent by the agency, screenshots of the electronic catalog, etc. that shows that said goods are not offered or available at the DBM-PS.  |                          |
| 2018-005 (KAPWD) | Bank Reconciliation Statements are not prepared regularly for all accounts maintained by the district in violation of Section 74 of PD 1445.   | <p>Prepare Bank Reconciliation Statements or all the District accounts regardless whether money was deposited or withdrawn from it or not for monitoring purposes.</p> <p>Regularly deposit to the employees' terminal, leave benefit account so that the fund will have enough when one or several districts' employees wil1 retire.</p>  | Partially Implemented    |
| 2018-010-KapWD   | A total of 109 disbursements paid through the District's Petty Cash Fund costing more than P300.00 each were only supported with Reimbursement Expense Receipt (RER), contrary to the provisions of COA Circular No. 2017-001 dated June 19, 2017. | <p>We recommend to the District to stop the practice of supporting only RER for all its disbursements costing more than P300.00 each.</p> <p>Travelling expenses for the meter readers should be supported with Travel Order and Itinerary of Travel with the certification of P150.00 daily expense for each day of travel;</p> <p>Job Order contract should be executed for any repair</p> | Fully Implemented        |

| Ref.             | Audit Observations   | Audit Recommendations  | Status of Implementation |
|------------------|--|--|--------------------------|
|                  |  | <p>services entered into by the District indicating therein the type of work to be employ, duration and the reasonable daily rate of the repairman, payment in the form of Salary should be duly acknowledged (Acknowledgement Receipt showing the minimum data as follows: date of payment, name of recipient, address of the recipient, purpose of payment, and amount received); and</p> <p>Meals and other expenses during BOD and Management meetings costing more than P300.00 should be procured from registered establishments to be supported by the Attendance and Minutes of the Meeting.</p> |                          |
| 2018-013-KapWD   | Management failed to provide its Accountable Officers with enclosed cubicle or safe room to safeguard the cash collections from unauthorized access inducing weak internal control, which is not in compliance to Section 2 of Presidential Decree No. 1445. | We recommend that the Management provide adequate and safe room for accountable officers ensuring that physical security measures are incorporated and that employees in custody of cash are not significantly close to employees in charge of recording transactions.   | Fully Implemented        |
| 2018-014 (KAPWD) | Several Internal Control measures was not implemented showing weakness in the handling   | Establish and observe internal control measures for Cash especially in the keeping of records, granting  | Partially Implemented    |

| Ref.             | Audit Observations   | Audit Recommendations  | Status of Implementation  |
|------------------|--|--|---|
|                  | of cash which may result loss of funds for the District.   | <p>of cash advances and internal audit of Petty Cash Fund.</p> <p>Separate records should be maintained by the treasury (cashier) and accounting department to establish check and balance in the keeping of District's records.</p> <p>Back-up the records kept electronically by the accounting department daily in a separate soft memory storage.</p> <p>Hard copies should be printed daily and kept by the section concerned. Copies should be provided for the District's COA Auditor for easy reference and retrieval.</p> |   |
| 2019-004 (KAPWD) | Kapatagan Water District did not use gender statistics and sex-disaggregated data and the existing gender analysis tools such as the Harmonized GAD Guidelines to determine the extent of the gender-responsiveness of its programs, activities, and projects in the prepared GAD Plan and Budget for calendar year 2018, thereby making the attribution of the GAD budget doubtful. | <p>We recommend management to:</p> <p>Prioritize gender mainstreaming efforts in GAD planning and budgeting to be headed by its GAD Focal Point System by using existing gender analysis tools such as the HGDC in the identification, design, implementation, management, and monitoring and evaluation stages of the various PAPs of the District to determine the extent of their gender-responsiveness and amount</p>  | <p>Partially Implemented</p> <p>The district has started creating activities for GAD, however, it was not properly implemented due to lack of training on the use of tools and other necessary procedures related to gender analysis.</p> |

| Ref.             | Audit Observations  | Audit Recommendations   | Status of Implementation |
|------------------|---|---|--------------------------|
|                  |   | <p>to be attributed to the GAD budget; If the district is not yet trained on the use of the tool, or the GFPS is not capacitated to conduct such gender analysis, it is recommended to seek the assistance of an expert or make representation through the Board of Directors to request for training and workshop from accredited institutions;</p> <p>Improve and develop the existing GAD Database or Sex-Disaggregated Data for proper utilization in the planning, budgeting, programming, and policy formulation of the District, as well as proper charging of the object of expenditures on actual accomplishments.</p> |                          |
| 2019-005 (KAPWD) | Delayed submission of the required reports to the Office of the Auditor precluded the auditor from conducting timely audit of the transactions. | We recommend that reports should be submitted to the Auditor regularly in accordance with the above-mentioned circulars either in soft or hard copy. If said reports are too bulky to be sent electronically, notice should be given so that the auditor or its representative can be sent to review it.  | Partially Implemented    |

| Ref.                | Audit Observations   | Audit Recommendations   | Status of Implementation   |
|---------------------|--|---|--|
| 2018-005<br>(KAPWD) | The non-submission of reports, especially the report on physical count of PPE and Inventory with net book value of P58,206,156.35 and P3,737,552.41 respectively, precluded the auditor from conducting timely audit and from ascertaining the validity, existence and accuracy of reported balances as of year-end. | We recommend that reports should be submitted to the Auditor regularly in accordance with the above-mentioned circulars either in soft or hard copy. If said reports are too bulky to be sent electronically, notice should be given so that the auditor or its representative can be sent to review it.  | Partially implemented<br><br>The newly assigned/designated property custodian has started doing the inventory procedure this CY 2020. Physical counting with the auditors will then be followed. |
| 2018-006<br>(KAPWD) | The Agency did not procure common-use supplies and materials from the Procurement Service (PS), which is not in compliance with the provisions of Administrative Order No. 17.   | We recommended that Management start procuring common-use supplies and materials from the Procurement Service pursuant to the provisions of Administrative Order No. 17. In cases that these items are not available from the PS, the management must secure a certification that said supplies and materials are not available before procuring the same from other suppliers. The procurement of supplies regularly needed by the Agency should be done on a quarterly basis. | Partially Implemented<br><br>The district had sent email once but no response received. The management considers also the possible expenses may incur in getting the supplies.                   |

| Ref.                            | Audit Observations  | Audit Recommendations  | Status of Implementation   |
|---------------------------------|---|--|--|
| 2018-009<br>(KAPWD)             | The estimated 620,461.60 cu.m. of unaccounted water incurred by the District for CY 2018 is 13.92% more than the maximum acceptable level of NRW of 20% prescribed by LWUA thru Resolution No. 444, series of 2009.   | We recommend to the District to improve its efficiency level by significantly reducing water loss to the allowable level of 20% through formulation of a more effective and intensive NRW Reduction Plan and Budget.   | Not Implemented<br><br>The management has already exerted extra ordinary efforts to resolve common problems of Water District, the NRW. But this year 2019 the district has started implementing NRW reduction program such as replacing the old meters by new ones, since most of the water meters were aged 10 yrs or more as well as old pipes. |
| 2016<br>AAR<br>Finding<br>No. 1 | Monthly allowances were granted to the Board of Directors (BODs) and payments of per diem for their attendance to board meetings exceed the maximum allowable amount per month contrary to Executive Order No. 65 and Local Water Utility Administration (LWUA) Memorandum Circular No. 015-12 dated November 22, 2012. | Require the BODs to refund the full amount so received in connection to the overpayment of per diems and allowances for lack of legal basis;<br><br>Stop the granting of monthly allowances and other benefits to its BODs without legal basis; and<br><br>Strictly adhere to Executive Order 65 and LWUA Memorandum Circular No. 015-12 relative to the compensation of the BODs of the District. | Partially Implemented<br><br>The management has already stopped the issuances of bonuses and other benefits with no legal basis.   |
| 2016<br>AAR<br>Finding<br>No.7  | Official receipts were procured from a private printing service provider without securing prior   | Strictly comply with Section 23 of the General Appropriations Act (GAA) of 2017 in contracting the   | Fully Implemented  |

| Ref.                            | Audit Observations   | Audit Recommendations   | Status of Implementation   |
|---------------------------------|--|---|--|
|                                 | certification from the recognized government printers (RGPs) as required under the General Appropriations Act (GAA) of 2017.   | services of private printers in the production of accountable forms and sensitive, high quality or high volume printing requirements.   |  |
| 2016<br>AAR<br>Finding<br>No.8  | The accrual of liability for the earned leave benefits of employees totaling P2, 702,878.98 was not provided by the district contrary to PAS 19 on the accounting for employee benefits.   | Provide annual budget for the earned leave benefits of the employees; and<br><br>Require the Human Resource Officer to furnish the Accounting Section with a copy of the schedule of earned leave credits of District personnel with the corresponding money value as basis in accounting of the accrued liability. | Partially Implemented<br><br>The district has continued depositing intended for this purpose yet the total savings as of April 30, 2019 is amounting to P1,850,000.                |
| 2016<br>AAR<br>Finding<br>No.10 | The General Manager was granted with Representation and Transportation Allowance (RATA) amounting to P17,000 while on a 2-month Special Leave contrary to Department of Budget Management (DBM) National Budget Circular No. 548 dated May 15, 2013. | Require Management to strictly comply with the guidelines in the grant of RATA to the General Manager pursuant to DBM National Budget Circular No. 548; and that the General Manager refund the RATA so received.   | Not Implemented<br><br>The management granted said allowances to GM due to humanitarian reasons. She really needs financial support at that time for her major surgical operation. |