



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Regional Office No. V  
Rawis, Legazpi City

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**OFFICE OF THE REGIONAL DIRECTOR**

June 4, 2020

**Engr. REY DENNIS L. GILBAS**

General Manager  
Bulan Water District  
Bulan, Sorsogon

Sir:

We are pleased to transmit the Annual Audit Report on the audit of the accounts and operations of the Bulan Water District, Bulan, Sorsogon, for the year ended December 31, 2019, in compliance with Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

The audit was conducted to: (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) determine the propriety of transactions as well as the extent of compliance with applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations.

The attached Report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations and the Status of Implementation of Prior Years' Audit Recommendations, which were discussed with concerned officials and staff on June 3, 2020 via teleconferencing.

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Water District for the year ended December 31, 2019.

We request that the recommendations be promptly implemented and we would appreciate being informed of the actions taken thereon within sixty (60) days from receipt hereof, using the prescribed format of the attached copy of the Agency Action Plan and Status of Implementation (AAPSI).

We express our appreciation for the support and cooperation extended to our Auditors by the officials and employees of the Water District.

Very truly yours,

  
**ROLAND A. REY**  
Regional Director

Copy furnished:

1. Administrator, LWUA
2. Auditor, LWUA
3. Office of the President
4. Office of the Vice-President
5. President of the Senate
6. Speaker of the House of Representatives
7. Chairperson – Senate Finance Committee
8. Chairperson – Appropriations Committee
9. Secretary, Department of Budget and Management
10. Presidential Management Staff, Office of the President
11. National Library
12. University of the Philippines Law Center
13. COA Commission Central Library  
Commission on Audit, Quezon City
14. File, Regional Director, COA RO5

## EXECUTIVE SUMMARY

### A. Introduction

The Bulan Water District (BWD) was formed on May 9, 1975 by virtue of Sangguniang Bayan Resolution No. 23, series of 1975. It derives its authority and powers as a water district from Presidential Decree (PD) No. 198, otherwise known as the Provincial Water Utilities Act of 1973, as amended by PD No. 768, PD No. 1479 and Republic Act (RA) No. 9286. Its Conditional Certificate of Conformance (CCC) No. 22 was issued on April 20, 1976 by the Local Water Utilities Administration (LWUA) after complying with the legal requirements, thus, qualifying to LWUA's technical and financial assistance for expansion of water facilities.

An audit of the financial transactions and operations of the Water District (WD) was conducted for Calendar Year (CY) 2019. The audit had the objective of ascertaining the fairness of presentation of the financial statements presented by the WD for the purpose of expressing an opinion thereon. It was also conducted to ascertain the validity, propriety and compliance of its financial transactions and operations with prescribed laws, rules and regulations.

To attain the audit objectives, the audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Due to the voluminous transactions of the WD, the audit was conducted on a test basis, applying the audit procedures and techniques such as vouching, inspections and interviews.

The following are the operational highlights for CYs 2019 and 2018 in terms of service connections, water sales and collections from water bills:

| 2019                         | Target         | Accomplishment | % of Accomplishment |
|------------------------------|----------------|----------------|---------------------|
| Service Connections          | 4,997          | 5,541          | 110.89%             |
| Sales                        | ₱30,621,055.15 | ₱25,919,330.96 | 84.65%              |
| Collections from water bills | ₱28,457,778.22 | ₱24,977,714.09 | 87.77%              |

| 2018                         | Target         | Accomplishment | % of Accomplishment |
|------------------------------|----------------|----------------|---------------------|
| Service Connections          | 4,617          | 4,819          | 104.38%             |
| Sales                        | ₱27,068,938.40 | ₱19,717,489.39 | 72.84%              |
| Collections from water bills | ₱25,579,590.40 | ₱18,228,347.18 | 71.26%              |



## B. Financial Highlights

The following are the financial highlights composed of comparative financial position and results of operations for CYs 2019 and 2018:

### I. Comparative Financial Position:

| Particulars | 2019           | 2018           | Increase/<br>(Decrease) |
|-------------|----------------|----------------|-------------------------|
| Assets      | ₱65,626,314.88 | ₱33,286,192.70 | ₱32,340,122.18          |
| Liabilities | ₱43,569,227.24 | ₱17,355,224.75 | ₱26,214,002.49          |
| Equity      | ₱22,057,087.64 | ₱15,930,967.95 | ₱6,126,119.69           |

### II. Sources and Application of Funds:

| Income                                | 2019           | 2018           | Increase/<br>(Decrease) |
|---------------------------------------|----------------|----------------|-------------------------|
| Waterworks Systems Fees               | ₱24,101,663.26 | ₱17,993,807.82 | ₱6,107,855.44           |
| Interest Income                       | 32,588.07      | 23,403.92      | 9,184.15                |
| Fine and Penalties-Business<br>Income | 915,659.78     | 746,321.37     | 169,338.41              |
| Other Business Income                 | 654,316.44     | 1,045,720.76   | (391,404.32)            |
| Total Income                          | ₱25,704,227.55 | ₱19,809,253.87 | ₱5,894,973.68           |

| Expenses                                    | 2019          | 2018          | Increase/<br>(Decrease) |
|---|---------------|---------------|-------------------------|
| Personnel Services                          | ₱9,588,265.08 | ₱7,967,716.74 | ₱1,620,548.34           |
| Maintenance and Other<br>Operating Expenses | 6,393,663.50  | 5,176,119.68  | 1,217,543.82            |
| Financial Expenses                          | 1,238,972.68  | 1,086,405.51  | 152,567.17              |
| Non-Cash Expenses                           | 2,027,349.05  | 1,781,606.63  | 245,742.42              |
| Total Expenses                              | 19,248,250.31 | 16,011,848.56 | 3,236,401.75            |
| Net Income                                  | ₱6,455,977.24 | ₱3,797,405.31 | ₱2,658,571.93           |

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

The Auditor issued a qualified opinion on the fairness of the presentation of the financial statements because the Water Supply System (WSS) account valued at ₱51.91 million included items with unit cost below ₱15,000 which were not reclassified to the appropriate inventory and/or expense accounts, resulting in the overstatement of the Property, Plant and Equipment (PPE) and Retained Earnings accounts by ₱4.45 million in the financial statements as of December 31, 2019.

## D. Summary of Significant Audit Observations and Recommendations

### *Financial and Compliance Audit*

1. The year-end balance of PPE - WSS account amounting to P51.91 million was overstated by P4.23 million due to inappropriate recognition of the completed .5MLD water treatment package plant for the deep well and surface water project as such instead to the proper account "Plant- Utility Plant in Service (UPIS)". Moreover, the liquidated damages in the amount of P470,000 was incorrectly deducted from the project cost of P4.70 million and not recognized in the books as Miscellaneous Income, resulting in the understatement of asset accounts and results of operation as of December 31, 2019, contrary to Sec. 112 of PD No. 1445 and pertinent provisions of COA Circular No. 2015-010, thus, misstating the affected accounts in the financial statements.

We recommended and Management agreed to instruct the Accounting Unit to comply with the existing regulation and adopt the use of appropriate account titles in accordance with the Revised Chart of Accounts per COA Circular No. 2015-010 to conform with the generally accepted accounting principles.

Moreover, we recommended that the Accounting Unit prepare a Journal Entry Voucher (JEV) to record the following necessary adjusting entry:

|                   |               |              |
|-------------------|---------------|--------------|
| UPIS-Supply Mains | P4,700,000.00 |              |
| Retained Earnings |               | P470,000.00  |
| WSS               |               | 4,230,000.00 |

2. Procured chemicals and filtering materials on account which were already delivered and received in the amount of P251,449 have remained unrecorded in the books, thereby, understating the Medical, Dental and Laboratory Supplies Inventory and Accounts Payable accounts in the financial statements as of December 31, 2019.

We recommended and Management agreed to require the Accounting Unit to record the chemicals and filtering materials procured on account which were already received amounting to P251,449 as Medical, Dental and Laboratory Supplies Inventory and recognize the corresponding liability account for fairness of presentation thereof in the financial statements. Also, require the Supply Officer to regularly furnish the Accounting Unit with the reports pertaining to delivered and issued inventories for prompt and reliable reporting of the same in the accounting records.

3. Prior year's recorded Other Non-Current Assets amounting to P262,779 consisting of unserviceable PPE was dropped from the books without actual disposal and duly accomplished/signed Inventory and Inspection Report of Unserviceable Property (IIRUP), inconsistent with the pertinent provisions of PD No. 1445 and the Government Accounting and Auditing Manual (GAAM), Volume I.



We recommended and Management agreed to revert back the recorded journal entry and we reiterated our prior year's recommendations to:

- a. Require the Property Officer, together with the Disposal Committee, to conduct actual inventory of the unserviceable properties and prepare the corresponding IIRUP for submission to the Accounting Office and COA, for their appropriate action;
  - b. Initiate the immediate disposal by adopting any of the appropriate modes of disposal thereof; and
  - c. Require the Accounting Office to prepare the necessary adjusting entries for the dropping of the pertinent unserviceable properties by drawing a JEV after the needed disposal and reconciliation with the Property records have been made.
4. Disbursements amounting to P0.67 million on the procurement of computer software for the billing, collection, cashiering, government accounting system and supplies and materials inventories, were not supported with complete documentation, which is not in accordance with Sec 112 of PD No. 1445, thus, casting doubt as to the validity and propriety of the disbursements made by the WD.

We recommended and Management agreed to submit the lacking documents and/or complete the data/information on the documents that were attached to the Disbursement Vouchers (DVs) submitted to the Audit Team. We also recommended strict compliance with the above-cited laws and regulation.

5. The disbursements amounting to P26.27 million on the procurement of the Design and Build for the Upgrading and Improvement of BWD Water System and Design and Build of 5000 CMD Capacity Lajong Water Treatment Plant were not supported with complete documentation, contrary to Sec. 112 of PD No. 1445 and COA Circular No. 2012-001, thus, casting doubts on the validity and propriety of the transactions.

We recommended and Management agreed to submit the lacking documents and/or complete the data/information on the documents that were attached to the DVs submitted to the Audit Team for further review and evaluation in audit. We also recommend strict compliance with the above-cited laws and regulations.

6. Progress payment in the amount of P16.23 million on the procurement of the Upgrading and Improvement of BWD Water System and Design and Build of 5000 CMD Capacity Lajong Water Treatment Plant made to the supplier was not deducted with taxes, retention money and recoupment of advance payments equal from his periodic progress payments, contrary to existing Bureau of Internal Revenue (BIR) Regulations and pertinent provisions in Annex E of the Implementing Rules and Regulations (IRR) of RA No. 9184.

We recommended and Management agreed to impose all withholding taxes due, retention money and recoupment of advance payment in the next progress billing pursuant to

existing government regulations to ensure that the projects are completed in accordance with the contract. Inability to collect from the contractor the required taxes, retention money and advance payment, the same shall be personal liabilities of the WD officials responsible and accountable therefor.

**E. Summary of Total Suspensions, Disallowances and Charges as of Year-End**

The outstanding balances of Notices of Suspension/ Disallowances/ Charges as of December 31, 2019 are as follows:

| Particulars            | Balance as of<br>January 1,<br>2019 | This Period   |                   | Balance as of<br>December 31,<br>2019 |
|------------------------|-------------------------------------|---------------|-------------------|---------------------------------------|
|                        |                                     | Issued        | Settled           |                                       |
| Notice of Suspension   | P 0.00                              | P 0.00        | P 0.00            | P 0.00                                |
| Notice of Disallowance | 54,228.80                           | 0.00          | 54,228.80         | 0.00                                  |
| Notice of Charge       | 0.00                                | 0.00          | 0.00              | 0.00                                  |
| <b>Total</b>           | <b>P 54,228.80</b>                  | <b>P 0.00</b> | <b>P54,228.80</b> | <b>P 0.00</b>                         |

**F. Status of Implementation of Prior Years' Audit Recommendations**

Out of 18 prior years' audit recommendations, nine were fully implemented and nine were partially implemented during the year.