



Republic of the Philippines
COMMISSION ON AUDIT

Regional Office No. V
Rawis, Legazpi City

Telefax Nos.: 482-0547; 482-0548

RECEIVED

DATE: 7/30/2018

BY: MARY JOSE B. PENAS

OFFICE OF THE REGIONAL DIRECTOR

July 26, 2018

THE BOARD OF DIRECTORS

Bulan Water District
Bulan, Sorsogon

Gentlemen:

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, 2017, 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 April 18, 2018.

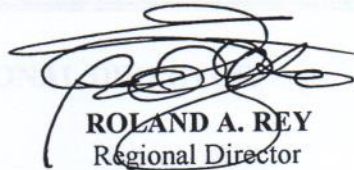
The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Water District for the year ended December 31, 2017.

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

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

Very truly yours,


ROLAND A. REY
Regional Director

MR. REY DENNIS L. GILBAN
General Manager
Palayan Water District

Copy furnished:

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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
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DATE: 7/30/2018

BY: MARY JANE D. VERA

OFFICE OF THE REGIONAL DIRECTOR

July 26, 2018

MR. REY DENNIS L. GILBAS

General Manager
Bulan Water District
Bulan, Sorsogon

Sir:

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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 April 18, 2018.

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, 2017.

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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 and maintained as water district by deriving its authority and powers under 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 compliance with the legal requirements, thus qualifying to its 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) 2017. 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 to prescribed rules and regulations.

To attain the audit objectives, the audit was conducted in accordance with Philippine Public Sector Standards on Auditing (PPSSA). 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 2017 and 2016 in terms of service connections, water sales and collections from water bills:

2017	Target	Accomplishment	% of Accomplishment
Service Connections	5,077	4,489	88.42%
Sales	P 23,908,333.93	P 16,798,969.52	70.26%
Collections from water bills	P 22,003,205.70	P 16,744,542.66	76.10%

2016	Target	Accomplishment	% of Accomplishment
Service Connections	6,302	4,942	78.42%
Sales	P 14,390,000.00	P 13,613,318.16	94.60%
Collections from water bills	P 14,208,761.00	P 13,618,309.42	95.84%

B. Financial Highlights

The following are the financial highlights composed of comparative financial position and results of operations for CYs 2017 and 2016:

I. Comparative Financial Position:

Particulars	2017	2016	Increase/ (Decrease)
Assets	P 31,455,226.97	P 29,137,108.30	P 2,318,118.67
Liabilities	P 18,917,569.67	P 17,758,515.74	P 1,159,053.93
Equity	P 12,537,657.30	P 11,378,592.56	P 1,159,064.74

II. Sources and Application of Funds:

Income	2017	2016	Increase/ (Decrease)
Waterworks Systems Fees	P 15,345,454.36	P 13,152,943.13	P 2,192,511.23
Interest Income	24,106.52	21,883.23	2,223.29
Fine and Penalties-Business Income	685,430.64	473,275.03	212,155.61
Other Business Income	743,978.00	599,980.80	143,997.20
Total Income	P 16,798,969.52	P 14,248,082.19	P 2,550,887.33

Expenses	2017	2016	Increase/ (Decrease)
Personnel Services	P 8,510,825.97	P 6,642,442.88	P 1,868,383.09
Maintenance and Other Operating Expenses	4,110,615.33	4,084,736.80	25,878.53
Financial Expenses	1,097,927.90	1,043,588.95	54,338.95
Non-Cash Expenses	1,694,668.75	1,660,921.34	33,747.41
Total Expenses	15,414,037.95	13,431,689.97	1,982,347.98
Net Income	P 1,384,931.57	P 816,392.22	P 568,539.35

C. Independent Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements because a variance of (P23.21) million exists between the General Ledger balance of P1.58 million and the electronically-generated Aging of Accounts Receivable of P(21.63) million, thus, the reliability of the Accounts Receivable account is doubtful.

D. Significant Audit Observations and Recommendations

Financial and Compliance Audit

1. The buildings and other insurable properties of the WD were not insured with the General Insurance Fund of GSIS.

We recommended and Management agreed to comply with the regulation on the insurance of its assets to the GSIS. For the coverage of insurance benefits, application and subsequent renewal of the insurance of the subject properties is highly advised.

2. The WD has yet to implement the Water Safety Plan (WSP) pending its approval for the assurance that the supplied water to its concessioners are of safe quality and to be compliant with the national policy for drinking-water quality management.

We recommended and Management agreed to follow-up the approval of the WSP. We also commended Management for its vigilance and commitment to deliver safe and quality water to its concessionaires through regular undertaking of daily, semi-annual and annual mandatory laboratory tests.

3. The WD was not able to develop policies and plans to address concerns relating to Disaster Risk Reduction and Management (DRRM). Also, it was unable to allocate a portion of its Corporate Operating Budget (COB) for CY 2017 as DRRM Fund.

We recommended and Management agreed to inquire from the NDRRMC and clarify said requirement regarding the implementation of activities for knowledge-building, awareness raising and disaster-preparedness. We also recommended that the WD use that information to develop policies and plans relating to DRRM and allocate a portion from its Corporate Operating Budget (COB) as DRRM Fund to finance for its implementation.

Value-For-Money Audit

4. The WD foregone an aggregate amount of approximate revenue amounting to ₱1.39 million due to the high percentage of Non-Revenue Water (NRW) registered at 29.38 per cent, which is 9.38 per cent higher than the industry average of 20 per cent.

We recommended that Management investigate and verify the causes of the excess NRW in CY 2017. Also, formulate control measures that would minimize the existence of unaccounted water.

5. The WD was not able to conduct periodic performance audit of the water meters being used by its concessionaires to ensure its accuracy, thus, may result to an increase in NRW which shall affect its operational efficiency and financial viability.

We recommended that Management cause the conduct of the periodic performance audit of the water meters being used by its concessionaires after every five years of its utilization, depending on the condition of the operation. Assess the financial capability of the WD to

consider the possibility of allocating funds to establish their own water meter testing facility pursuant to LWUA MC No. 014-10.

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, 2017 are as follows:

Particulars	Balance as of January 1, 2017	This Period		Balance as of December 31, 2017
		Issued	Settled	
Notice of Suspension	P 0.00	P 0.00	P 0.00	P 0.00
Notice of Disallowance	79,728.80	0.00	0.00	79,728.80
Notice of Charge	0.00	0.00	0.00	0.00
Total	P 79,728.80	P 0.00	P 0.00	P 79,728.80

F. Status of Implementation of Prior Years' Audit Recommendations

Out of seven prior years' audit recommendations, two were fully implemented, three were partially implemented and two were not implemented during the year.

BULAN WATER DISTRICT

Bulan, Sorsogon

Statement of Financial Position

As at December 31, 2017

(With Comparative Figures for CY 2016)

	Note	<u>2017</u>	<u>2016</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	2	P 4,645,821.78	P 4,185,223.28
Receivables, net	3	1,230,397.89	966,090.16
Inventories	4	1,562,063.64	1,413,363.55
Other Current Assets	5	223,931.11	204,810.58
Total Current Assets		P 7,662,214.42	P 6,769,487.57
Non-Current Assets			
Other Investments	6	96,527.36	96,380.99
Property, Plant and Equipment, net	7	23,433,705.93	22,008,460.48
Other Non-Current Assets	8	262,779.26	262,779.26
Total Non-Current Assets		P 23,793,012.55	P 22,367,620.73
TOTAL ASSETS		P 31,455,226.97	P 29,137,108.30
LIABILITIES AND EQUITY			
Current Liabilities			
Current Financial Liabilities	9	P 1,917,171.05	P 1,995,166.88
Inter-Agency Payables	10	(14,902.82)	45,926.93
Trust Liabilities	11	345,735.60	345,735.60
Total Current Liabilities		P 2,248,003.83	P 2,386,829.41
Non - Current Liabilities			
Non-Current Financial Liabilities	12	P 16,641,026.97	P 15,343,147.46
Deferred Credits/Uneaned Income	13	28,538.87	28,538.87
Total Non-Current Liabilities		P 16,669,565.84	P 15,371,686.33
Total Liabilities		P 18,917,569.67	P 17,758,515.74
Equity			
Retained Earnings		P 12,537,657.30	P 11,378,592.56
Total Equity		P 12,537,657.30	P 11,378,592.56
TOTAL LIABILITIES AND EQUITY		P 31,455,226.97	P 29,137,108.30

(Please see accompanying Notes to Financial Statements)

BULAN WATER DISTRICT

Bulan, Sorsogon

Statement of Comprehensive Income
For the Year Ended December 31, 2017
(With Comparative Figures for CY 2016)

	Note	<u>2017</u>	<u>2016</u>
Service and Business Income	14	P 16,798,969.52	P 14,248,082.19
Less Expenses:			
Personnel Services	15	P 8,510,825.97	P 6,642,442.88
Maintenance and Other			
Operating Expenses	16	4,110,615.33	4,084,736.80
Financial Expenses	17	1,097,927.90	1,043,588.95
Non-Cash Expenses	18	1,694,668.75	1,660,921.34
Total Expenses		P 15,414,037.95	P 13,431,689.97
Net Income		P <u>1,384,931.57</u>	P <u>816,392.22</u>

(Please see accompanying Notes to Financial Statements)

BULAN WATER DISTRICT

Bulan, Sorsogon

Statement of Changes in Equity For the Year Ended December 31, 2017 (With Comparative Figures for CY 2016)

CASH FLOWS FROM OPERATING ACTIVITIES

	2017	2016
Cash Inflows		
Retained Earnings, Beginning Balance	P 11,378,592.56	P 10,642,923.34
Add: Net Income for the Year	1,384,931.57	816,392.22
Total	P 12,763,524.13	P 11,459,315.56
Add/Less: Prior Year's Adjustments	(225,866.83)	(80,723.00)
Retained Earnings, Ending Balance	P 12,537,657.30	P 11,378,592.56
Cash Outflows		
Payment of maintenance and other operating expenses	1,234,567.89	1,123,456.78
Payment of fixed asset expenses	234,567.89	123,456.78
Payment of expenses pertaining to incurred in the prior years	123,456.78	123,456.78
Liquidation of prior year's cash advances	123,456.78	123,456.78
Purchase of inventory held for consumption	234,567.89	123,456.78
Payments of Accounts Payable	234,567.89	123,456.78
Reimbursement of taxes withheld	123,456.78	123,456.78
Remittance to GRS/Reg-Bills/PhilHealth/SSS	123,456.78	123,456.78
Total Cash Outflows	P 1,808,847.40	P 1,350,070.90
Net Cash Provided by/(Used in) Operating Activities	P 1,094,676.73	P 1,109,244.66

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Outflows		
Purchase of furniture, fixtures and books	P 123,456.78	P 123,456.78
Payment for rehabilitation of P/F (capitalized repair)	234,567.89	123,456.78
Purchase of computer software	123,456.78	123,456.78
Total Cash Outflows	P 481,481.45	P 370,370.34
Net Cash Provided By/(Used in) Investing Activities	P 1,332,311.00	P 738,874.32

CASH FLOWS FROM FINANCING ACTIVITIES

Cash Outflows		
Payment of domestic loans	P 123,456.78	P 123,456.78
Payment of interest on Loans and Other Financial Charges	234,567.89	123,456.78
Total Cash Outflows	P 358,024.67	P 246,913.56
Net Cash Provided By/(Used in) Financing Activities	P 1,000,000.00	P 891,960.76
Increase/(Decrease) in Cash and Cash Equivalents	P 2,426,987.73	P 2,739,079.74
Cash and Cash Equivalents, January 1	P 1,000,000.00	P 1,000,000.00
CASH AND CASH EQUIVALENTS, DECEMBER 31	P 3,426,987.73	P 3,739,079.74

BULAN WATER DISTRICT

Bulan, Sorsogon

Statement of Cash Flows

For the Year Ended December 31, 2017

(With Comparative Figures for CY 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Inflows		
Collection of service and business income	P 16,744,542.66	P 14,364,414.99
Assistance from Other Government Corporations	3,000,000.00	0.00
Total Cash Inflows	P 19,744,542.66	P 14,364,414.99
Cash Outflows		
Payment of personnel services	P 6,796,669.37	P 4,214,881.07
Payment of maintenance and other operating expenses	3,538,574.30	2,820,737.19
Payment of financial expenses	55,106.88	198,812.76
Payment of expenses pertaining to/incurred in the prior years	186,366.79	106,223.00
Liquidation of prior year's cash advances	-	442,852.18
Purchase of inventory held for consumption	749,095.79	605,913.37
Payments of Accounts Payable	805,999.00	1,041,803.05
Remittance of taxes withheld	476,198.51	380,823.83
Remittance to GSIS/Pag-IBIG/PhilHealth/SSS	1,755,612.52	1,556,444.55
Total Cash Outflows	P 14,363,623.16	P 11,368,491.00
Net Cash Provided by/(Used in) Operating Activities	P 5,380,919.50	P 2,995,923.99
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Outflows		
Purchase of furniture, fixtures and books	P 2,553.00	P 14,835.00
Payment for rehabilitation of PPE(capitalized repair)	2,300,000.00	474,441.47
Purchase of computer software	79,768.00	38,530.00
Total Cash Outflows	P 2,382,321.00	P 527,806.47
Net Cash Provided By/(Used In) Investing Activities	P (2,382,321.00)	P (527,806.47)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Outflows		
Payment of domestic loans	P 2,538,000.00	P 2,538,000.00
Payment of Interest on Loans and Other Financial Charges	-	168,581.86
Total Cash Outflows	P 2,538,000.00	P 2,706,581.86
Net Cash Provided By/(Used In) Financing Activities	P (2,538,000.00)	P (2,706,581.86)
Increase/(Decrease) in Cash and Cash Equivalents	P 460,598.50	P (238,464.34)
Cash and Cash Equivalents, January 1	4,185,223.28	4,423,687.62
CASH AND CASH EQUIVALENTS, DECEMBER 31	P 4,645,821.78	P 4,185,223.28