



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

Telefax Nos.: 482-0547; 482-0548

OFFICE OF THE REGIONAL DIRECTOR

May 2, 2019

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, 2018, 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 3, 2019.

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, 2018.

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 that 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. 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 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) 2018. 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 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 2018 and 2017 in terms of service connections, water sales and collections from water bills:

2018	Target	Accomplishment	% of Accomplishment
Service Connections	4,617	4,819	100%
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%

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%

B. Financial Highlights

The following are the financial highlights composed of comparative financial position and results of operations for CYs 2018 and 2017:

I. Comparative Financial Position:

Particulars	2018	2017	Increase/ (Decrease)
Assets	P33,286,192.70	P31,455,226.97	P1,830,965.73
Liabilities	P17,355,224.75	P18,917,569.67	P(1,562,344.92)
Equity	P15,930,967.95	P12,537,657.30	P3,393,310.65

II. Sources and Application of Funds:

Income	2018	2017	Increase/ (Decrease)
Waterworks Systems Fees	P17,993,807.82	P15,345,454.36	P2,648,353.46
Interest Income	23,403.92	24,106.52	(702.60)
Fine and Penalties-Business Income	746,321.37	685,430.64	60,890.73
Other Business Income	1,045,720.76	743,978.00	301,742.76
Total Income	P19,809,253.87	P16,798,969.52	P3,010,284.35

Expenses	2018	2017	Increase/ (Decrease)
Personnel Services	P7,967,716.74	P8,510,825.97	(P543,109.23)
Maintenance and Other Operating Expenses	5,176,119.68	4,110,615.33	1,065,504.35
Financial Expenses	1,086,405.51	1,097,927.90	(11,522.39)
Non-Cash Expenses	1,781,606.63	1,694,668.75	86,937.88
Total Expenses	15,414,037.95	15,414,037.95	0.00
Net Income	P3,797,405.31	P1,384,931.57	P2,412,473.74

C. Independent Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements for the CY 2018 because the reliability and accuracy of the total Property, Plant and Equipment (PPE) could not be ascertained due to the variance between the accounting records and inventory reports amounting to P50.99 million brought about by PPE items amounting to P51.43 million not included in the inventory report and unreconciled difference in the amount of P435,610.

D. Summary of Significant Audit Observations and Recommendations

Financial and Compliance Audit

1. Collections were not deposited intact daily or on the next banking day with the Authorized Government Depository Bank (AGDB), contrary to Section 69 of PD No. 1445, thus exposing government funds to possible misappropriation or risk of loss.

We recommended and Management agreed to require the Cashier to deposit the collections promptly and intact with the AGDB to prevent intentional holding of cash that may result to possible loss or misappropriation of government fund.

2. The WD maintains a savings account with the Philippine National Bank (PNB) which is not an AGDB, hence, not in accordance with Department of Finance Department Circular No. 01-2017 dated May 11, 2017.

We recommended and Management agreed to require the Accountable Officer (AO) to close the PNB account, transfer all funds and cash balances to an AGDB if no approval will be secured from the Bureau of Treasury on the maintenance of bank account with PNB.

3. The Reports of Accountability for Accountable Forms (RAAF) prepared by the AO, in pursuance to the provisions of the Manual for New Government Accounting System for Corporations, did not show the complete accountability for official receipts used/issued by the WD, thus, rendering the reports unreliable.

We recommended and Management agreed to require the AO to report all accountable forms being issued/used by the WD in the prescribed RAAF and regularly prepare and submit them to the Auditor's Office, to facilitate timely verification of accountabilities.

4. Year-end balance of Other Receivables includes the amount of ₱16,955 pertaining to the collectibles from two retired employees as shares for the premium arrearages remitted to the Government Service Insurance System (GSIS) from May 2012 to April 2017 remained outstanding, thus, collectibility thereof is doubtful and affected the reliability of the balance of the Other Receivables account in the financial statements.

We recommended and Management agreed to require the Accountant to review and recheck the validity of the Other Receivables account taking into consideration the retirees' retirement date vis-a-viz MOA's date of execution. Demand letters can be sent to the concerned retirees requesting payment from them. Ultimately, a request for writing off must be made to the Audit Team in accordance with the applicable rules and regulations.

5. Existence of Prepayments recorded as Deferred Charges/Loss amounting to ₱134,000 reported as dormant account for more than two years is contrary with the existing rules,

hence, affected the accuracy and reliability of the accounts in the Financial Statements as of December 31, 2018.

We recommended and Management agreed to require the Accountant to review and verify the nature and/or purpose of the recorded prepayments and make the necessary adjustment and/or reclassification in the books for proper presentation of the affected accounts in the WD's financial statements.

6. Prior years' claims of officers and employees recorded under Due to Officers and Employees account amounting to ₱60,195 as of December 31, 2018, without supporting schedule of the actual payees, remained in the books for more than six years inconsistent with Sections 111 and 112 of PD No. 1445, hence, reliability and existence of the account is doubtful.

We recommended and Management agreed to instruct the Accountant to review, validate and verify the nature of the past due liabilities and accordingly make the necessary adjustment in the books for accurate and reliable financial reporting.

7. The ₱3.00 million Emergency Operational Loan received from LWUA intended to finance the project on water treatment facilities, was not fully utilized, showing a balance of ₱399,258 as of terminal date of disbursement (TDD), inconsistent with the condition stipulated on Loan Contract of Agreement executed between Bulan Water District and LWUA on February 23, 2017 at Quezon City Philippines, thus, deprives the WD and its consumers of the greatest benefit that could be derived therefrom.

We recommended and Management agreed to comply with the conditions of the loan agreement and expedite the completion of the approved project. A request for approval of extension of project completion beyond the TDD must be made to LWUA to avoid possible rescindment of the loan contract agreement.

8. The WD made an advance payment to Exotherm Inc., amounting to ₱2.00 million (42.55 per cent of the contract amount) for goods not yet delivered, notwithstanding that the conditions provided in Section 88 of PD No. 1445 and Section 4 of Annex "D" of the Revised Implementing Rules and Regulations of RA No. 9184 were not present in the procurement of ".5MLD Water Treatment Package Plant for the deep well and surface water" at Brgy. Lajong with a contract cost of ₱4.70 million.

We recommended and Management agreed to desist from making advance payments to supplier for goods not yet delivered unless the conditions provided in Section 88 of PD No. 1445 and Section 4 of Annex D of the IRR of RA No. 9184 are present.

9. The supplier was not able to fully comply with the contract agreement as the supplier has only made a partial delivery on June 8, 2018, thus, the water treatment package plant facility/project was non-operational as of the date of completion on April 18, 2018 and even up to December 31, 2018, recording a delay of more than seven months as of year-end. Also, the WD did not exercise its option to rescind the contract notwithstanding that

the total sum of liquidated damages has already exceeded 10 per cent of the total contract price.

We recommended and Management agreed to the following:

- a. If the supplier is still willing to pursue with the project, impose the necessary liquidated damages against the supplier;
- b. If the supplier is no longer interested, exercise the option to rescind the contract and bid the same to another supplier; and
- c. Impose the appropriate sanctions to the supplier over and above the liquidated damages to be paid.

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, 2018 are as follows:

Particulars	Balance as of January 1, 2018	This Period		Balance as of December 31, 2018
		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	P79,728.80	P 0.00	P 0.00	P79,728.80

F. Status of Implementation of Prior Years' Audit Recommendations

Out of eight prior years' audit recommendations, three were fully implemented and five were partially implemented during the year.