



**Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City**

FINANCIAL AUDIT REPORT

on the

**BALIWAG WATER DISTRICT
Baliwag, Bulacan**

For the Year Ended December 31, 2019

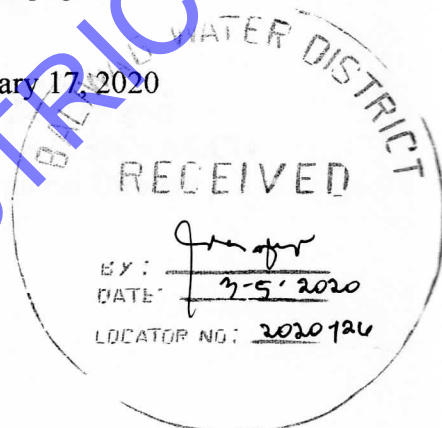


Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. III
City of San Fernando, Pampanga

Tel No. (045) 455-4274 • Telefax No. (045) 455-4273 • Website: www.coa.gov.ph

February 17, 2020

Ms. MARIA MANOLITA C. CRUZ
Chairperson of the Board of Directors
Baliwag Water District
Baliwag, Bulacan



Dear **Chairperson Cruz:**

We are pleased to transmit the Financial Audit Report on the audit of the Baliwag Water District, Baliwag, Bulacan for the Calendar Year 2019 in compliance with Section 43 of the Government Auditing Code of the Philippines (PD No. 1445). The audit was conducted in accordance with International Standards of Supreme Audit Institutions and we believe that it provided a reasonable basis for the results of our audit.

The audit was conducted to (a) ascertain the degree of reliance 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 year's audit recommendations.

We rendered an unmodified opinion on the fairness of presentation of the financial statements.

The audit report consists of Part I - Audited Financial Statements, Part II - Audit Observations and Recommendations and Part III - Status of Implementation of Prior Year's Unimplemented Audit Recommendations.

The audit observations and recommendations were discussed with concerned officials of the District in the exit conference held on February 11, 2020. Management's comments were incorporated in the report, where appropriate.

We request that a status report, thru accomplishing the attached **Agency Action Plan and Status of Implementation (AAPSI)** form, on the actions taken on the audit recommendations be submitted within 60 days from receipt of this report, pursuant to Section 99 of the General Provisions of the General Appropriations Act for FY 2019.

We appreciate the invaluable support and cooperation extended by the officials and staff of the District during the audit engagement.

Very truly yours,


LYNN S.F. SICANGCO
Regional Director

BALIWAG WATER DISTRICT
Baliwag, Bulacan

**AGENCY ACTION PLAN and
STATUS of IMPLEMENTATION
Audit Observations and Recommendations
For the Calendar Year 2019
As of _____**

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for Partial/Delay/ Non-Implementation, if applicable	Action Taken/ Action to be Taken
			Action Plan	Person/ Dept. Responsible	Target Implementation Date				
						From	To		

Agency sign-off:

Name and Position of Agency Officer

Date

Note: Status of implementation may either be (a) Fully Implemented; (b) Ongoing; (c) Not implemented; (d) Partially Implemented; or (e) Delayed



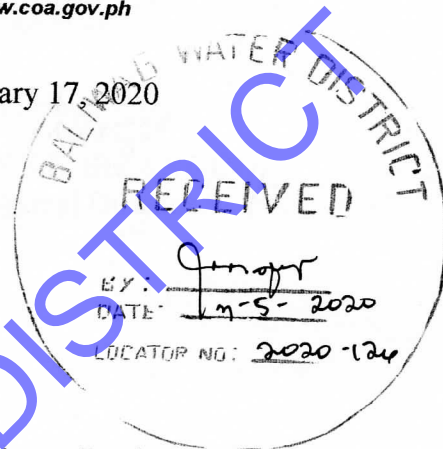
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February 17, 2020

Mr. ARTEMIO F. BAYLOSIS

General Manager
Baliwag Water District
Baliwag, Bulacan



Dear **Manager Baylosis**:

We are pleased to transmit the Financial Audit Report on the audit of the Baliwag Water District, Baliwag, Bulacan for the Calendar Year 2019 in compliance with Section 43 of the Government Auditing Code of the Philippines (PD No. 1445). The audit was conducted in accordance with International Standards of Supreme Audit Institutions and we believe that it provided a reasonable basis for the results of our audit.

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We rendered an unmodified opinion on the fairness of presentation of the financial statements.

The audit report consists of Part I - Audited Financial Statements, Part II - Audit Observations and Recommendations and Part III - Status of Implementation of Prior Year's Unimplemented Audit Recommendations.

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We request that a status report, thru accomplishing the attached **Agency Action Plan and Status of Implementation (AAPSI)** form, on the actions taken on the audit recommendations be submitted within 60 days from receipt of this report, pursuant to Section 99 of the General Provisions of the General Appropriations Act for FY 2019.

We appreciate the invaluable support and cooperation extended by the officials and staff of the District during the audit engagement.

Very truly yours,


LYNN S.F. SICANGCO
Regional Director

T

BALIWAG WATER DISTRICT

Baliwag, Bulacan

AGENCY ACTION PLAN and STATUS of IMPLEMENTATION Audit Observations and Recommendations For the Calendar Year 2019 As of _____

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for Partial/Delay/ Non-Implementation, if applicable	Action Taken/ Action to be Taken
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February 13, 2020

Ms. LYNN S.F. SICANGCO
Regional Director
COA Regional Office No. III
City of San Fernando, Pampanga

Dear **Director Sicangco**:

We are pleased to submit herewith the Financial Audit Report on the audit of the Baliwag Water District, Baliwag, Bulacan for the Calendar Year 2019 in compliance with Section 43 of the Government Auditing Code of the Philippines (PD No. 1445).


The audit was conducted to (a) ascertain the degree of reliance 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 year's audit recommendations.

The attached report consists of Part I - Audited Financial Statements, Part II - Audit Observations and Recommendations and Part III - Status of Implementation of Prior Year's Unimplemented Audit Recommendations.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions and we believe that it provided a reasonable basis for the audit results. We rendered an unmodified opinion on the fairness of presentation of the financial statements.

We acknowledge the invaluable support and cooperation extended by the officials and staff of the District.

Very truly yours,


PRISCILA R. ESGUERRA
OIC - Supervising Auditor



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. III
City of San Fernando, Pampanga

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February 12, 2020

Ms. PRISCILA R. ESGUERRA
OIC - Supervising Auditor
CGS A - Water Districts Audit Group
This Region

Madam:

We are pleased to submit herewith the Financial Audit Report on the audit of the Baliwag Water District, Baliwag, Bulacan for the Calendar Year 2019 in compliance with Section 43 of the Government Auditing Code of the Philippines (PD No. 1445).


The audit was conducted to (a) ascertain the degree of reliance 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 year's unimplemented audit recommendations.

The attached report consists of Part I - Audited Financial Statements, Part II - Audit Observations and Recommendations and Part III - Status of Implementation of Prior Year's Unimplemented Audit Recommendations. The audit observations and recommendations were discussed with the officials concerned in the exit conference held on February 11, 2020.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions and we believe that it provided a reasonable basis for the audit results.

We acknowledge the invaluable support and cooperation extended by the officials and staff of the District.

Very truly yours,


MAURA D. CASTILLO
Audit Team Leader

EXECUTIVE SUMMARY

A. Introduction

The District was created pursuant to Presidential Decree No. 198, otherwise known as the “Local Water Utilities Act of 1973”, as amended by PD Nos. 768 and 1479, and by virtue of the Local Sangguniang Bayan Resolution No. 011 series of 1988. On July 6, 1989, the Conditional Certificate of Conformance (CCC) No. 407 was issued by Local Water Utilities Administration (LWUA) to formalize its establishment. This CCC is the accreditation of LWUA to a newly-formed water district to operate under the standard specification.

Since 1992, by virtue of the Supreme Court En Banc decision, GR No. 95237-38 (Davao City Water District, et al. vs. CSC et al.), water districts were declared government owned and/or controlled corporation with original charter, and as such they are placed under the jurisdiction of the Civil Service Commission and Commission on Audit.

As of December 31, 2019, the District has 24 pumping stations which serve 27 barangays with 32,477 total active service connections. The District is categorized as Category “A” water district pursuant to the Local Water District Manual on Re-categorization in March 2017.

The District was formed for the purpose of acquiring, installing, improving, maintaining and operating water supply and distribution system for the residents of Baliwag, Bulacan.

The District’s Board of Directors is composed of the following:

<u>Name</u>	<u>Position/Designation</u>	<u>Sector</u>
Ms. Maria Manolita C. Cruz	Chairman	Civic
Mr. Conrado E. Evangelista	Vice-Chairman	Education
Ms. Hazel M. Galang	Secretary	Women
Ms. Victoria G. Canoza	Treasurer	Professional
Mr. Florido S. Santos	Member	Business

The District has 159 personnel and headed by General Manager Artemio F. Baylosis.

B. Financial Highlights

The comparative analysis of the District’s Financial Position and Results of Operation for CY 2019 and 2018 are shown on the next page.

	2019	2018
Financial Position		
Assets	₱434,853,049.09	₱410,042,863.21
Liabilities	179,853,056.78	194,734,093.66
Equity	254,999,992.31	215,308,769.55
Results of Operation		
Income	231,627,322.62	213,561,683.39
Expenses	210,344,966.94	199,135,506.50
Net Income	21,282,355.68	14,426,176.89

C. Scope of Audit

We conducted an audit of the financial transactions and operations of the Baliwag Water District for the year ended December 31, 2019 on a sampling basis in accordance with the International Standards of Supreme Audit Institutions and Corporate Government Sector Memorandum dated October 04, 2018 prescribing for the General Audit Instructions for the conduct of CY 2019 Audit of Water Districts and for other matters. We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion. The audit was conducted to (a) ascertain the degree of reliance 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 year's audit recommendations.

D. Independent Auditor's Report

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

E. Summary of Other Significant Audit Observations and Recommendations

The other significant audit observations noted during the audit and the corresponding recommendations are the following:

1. The accuracy, existence and completeness of Property, Plant and Equipment (PPE) account with carrying amount of ₱381,980,635.20 were doubtful due to the inclusion of (a) intangible assets with carrying amount of ₱974,650.92 which were previously recognized as Information and Communication Technology Equipment account; and (b) semi expendable items costing below ₱15,000.00, contrary to the provisions of Annex A of COA Circular 2015-010. Likewise, Report on the Physical Count of PPE (RPCPPE) was not prepared in accordance with the provisions of Sections 490 and 55.a.1a of the GAAM Volume I and III, respectively, thus, no reconciliation was

made between the PPE Lapsing Schedule and RPCPPE from Finance and General Services Division. **(Observation No. 1)**

We recommended that the General Manager instruct the Corporate Budget Analyst B through the OIC-Department Manager – Finance to prepare the necessary adjusting entries guided by COA Circular No. 2015-010 dated December 01, 2015 to reclassify to the proper accounts the intangible assets with total acquisition cost of ₱9,050,875.28 and semi expendable items amounting to ₱173,555.00 that were included in the PPE accounts.

We also recommended that the General Manager (a) instruct the designated Property Officer to prepare and submit the Report on the Physical Count of PPE in compliance with Section 490 of the GAAM, Volume I; and (b) (i) direct the Corporate Budget Analyst B and designated Property Officer to reconcile the PPE balances per accounting records and the Report on the Physical Count of PPE; and (ii) investigate the discrepancies noted, if any, and make the necessary adjustments and reclassification to the proper accounts.

2. The District did not recognize as payable the unpaid audit fees due to the Commission on Audit – Region III pertaining to CY 2018 audit amounting to ₱217,554.74, thereby understating the Accounts Payable and overstating the Retained Earnings contrary to paragraphs 27 and 28 of the Philippine Accounting Standards (PAS) 1 and Chapter 4 of the International Financial Reporting Standards (IFRS) Framework for Expenses. **(Observation No. 2)**

We recommended that the General Manager instruct the OIC – Department Manager, Finance to (a) require the Corporate Budget Analyst B to record the amount due to COA Region III amounting to ₱217,554.74 based on the billings provided by the ATFS and the eventual settlement thereof; and (b) monitor closely the compliance of the District regarding the recognition of audit fees and prompt settlement to prevent the occurrence of similar conditions in the future.

3. The collectability of inactive accounts amounting to ₱4,702,616.80 and active receivables from the Municipality of Baliwag of ₱6,142,590.57 accumulated to an alarming level because of the absence of effective collection policy and negotiations with the Municipality was still in process, respectively; thus, depriving the District of the opportunity cost on the funds tied up to these receivables contrary to Section 64 of the Government Accounting and Auditing Manual, Volume I. **(Observation No. 3)**

We recommended that the General Manager instruct the Division Manager – Customer Accounts and the OIC – Department Manager Finance to (a) send demand letters to verify the existence of the concessionaires with inactive accounts in their indicated addresses; (b) strengthen efforts to collect the inactive accounts receivables including those with existing accounts and take appropriate legal action, if necessary; (c) fast track the preparation of the request for write-off of dormant accounts from the Commission on Audit, after all measures to collect had been futile pursuant to COA Circular No. 2016-

005 dated December 19, 2016; and (d) coordinate/discuss constantly with the incumbent Municipal Mayor the legal processes on the possible offsetting of the value of the properties transferred as in lieu share to the District for the unpaid water bill; otherwise, exert utmost efforts to collect the unpaid active accounts totaling ₱6,142,590.57..

4. The District did not develop policies, prepare plans and display information on disasters contrary to Section 4, Rule 1 of the General Provisions of the Implementing Rules and Regulations of RA No. 10121. As a result, the awareness/consciousness and understanding of disasters by its personnel and concessionaires were not promoted (*Observation No. 4*)

We recommended that the General Manager thru the OIC-Buildings and Grounds Division (a) prepare policies, plans and display complete information materials like NDCC alert tips charts at customer's waiting areas and office bulletin boards; and (b) conduct briefings/alert drills on calamities to assess the preparedness of its personnel in the event of calamities.

F. Summary of Audit Suspensions, Disallowances and Charges

Prior years' audit disallowances issued for CYs 2012 to 2018 transactions totaled ₱26,166,736.87 with settlements made in the total amount of ₱550,000.00; leaving a balance of ₱25,616,736.87 as of December 31, 2019. There were disallowable disbursements amounting to ₱4,054,429.38 in the audit of CY 2019 transactions.

G. Status of Implementation of Prior Year's Unimplemented Audit Recommendations

Of the 24 audit recommendations embodied in the CY 2018 Financial Audit Report, 16 were fully implemented and eight were partially implemented.

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BALIWAG WATER DISTRICT

BALIWAG WATER DISTRICT

PART I – AUDITED FINANCIAL STATEMENTS



INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Baliwag Water District
Baliwag, Bulacan

Unmodified Opinion

We have audited the financial statements of the Baliwag Water District, Baliwag, Bulacan, which comprise the Statement of Financial Position as at December 31, 2019, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes to Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Baliwag Water District as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Bases for Unmodified Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the District in accordance with the Code of Ethics for Government Auditors together with the ethical requirements that are relevant to our audit of 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 bases for our opinion.

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

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


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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material 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 guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

COMMISSION ON AUDIT

By:


PRISCILA R. ESGUERRA
OIC - Supervising Auditor

February 11, 2020

BALIWAG WATER DISTRICT
Baliwag, Bulacan
STATEMENT OF FINANCIAL POSITION
As at December 31, 2019
(With Comparative Figures for CY 2018)

	Note	2019	2018
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	P 17,462,322.20	P 8,467,177.53
Receivables, Net	5	19,049,955.09	18,102,533.56
Inventories	6	8,931,893.85	7,276,126.43
Other Assets	7	6,711,983.46	3,494,688.65
Total Current Assets		52,156,154.60	37,340,526.17
Non-Current Assets			
Investment in Time Deposits - Local Currency	8	716,259.29	712,096.76
Property, Plant and Equipment, Net	9	381,980,635.20	371,990,240.28
Total Non-Current Assets		382,696,894.49	372,702,337.04
TOTAL ASSETS		P434,853,049.09	P410,042,863.21
LIABILITIES AND EQUITY			
LIABILITIES			
Current Liabilities			
Financial Liabilities	10	P 22,330,642.09	P 23,511,581.99
Inter-Agency Payables	11	3,133,565.22	2,739,297.83
Total Current Liabilities		25,464,207.31	26,250,879.82
Non-Current Liabilities			
Financial Liabilities	10	105,008,098.10	124,256,377.52
Inter-Agency Payables	11	3,420,845.00	3,420,845.00
Trust Liabilities	12	4,911,213.07	4,840,012.37
Other Deferred Credits	13	3,912,671.33	960,308.55
Leave Benefits Payable	14	19,625,306.75	15,612,050.69
Other Payables	15	17,510,715.22	19,393,619.71
Total Non-Current Liabilities		154,388,849.47	168,483,213.84
TOTAL LIABILITIES		179,853,056.78	194,734,093.66
EQUITY			
Contributed Capital		20,883,551.52	20,883,551.52
Retained Earnings		234,116,440.79	194,425,218.03
TOTAL EQUITY		254,999,992.31	215,308,769.55
TOTAL LIABILITIES AND EQUITY		P434,853,049.09	P410,042,863.21

The notes on pages 8 to 30 form part of these statements.

BALIWAG WATER DISTRICT
Baliwag, Bulacan
STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended December 31, 2019
(With Comparative Figures for CY 2018)

	Note	2019	2018
INCOME			
Business Income	16	P227,599,973.37	P212,627,193.57
Other Gains	17	119,115.24	85,811.84
Other Non - Operating Income	18	3,908,234.01	848,677.98
TOTAL INCOME		231,627,322.62	213,561,683.39
EXPENSES			
Personnel Services	19	82,325,703.13	71,625,369.95
Maintenance and Other Operating Expenses	20	96,588,627.60	88,945,177.39
Financial Expenses	21	7,453,510.40	8,766,525.57
Non-Cash Expenses	22	23,977,125.81	29,798,433.59
TOTAL EXPENSES		210,344,966.94	199,135,506.50
NET INCOME		P 21,282,355.68	P 14,426,176.89

BALIWAG WATER DISTRICT

BALIWAG WATER DISTRICT
Baliwag, Bulacan
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2019

	CONTRIBUTED CAPITAL	RETAINED EARNINGS	TOTAL
BALANCE AT DECEMBER 31, 2018	P20,883,551.52	P194,425,218.03	P215,308,769.55
Add(Deduct):			
Net Income for the year	0.00	21,282,355.68	21,282,355.68
Prior Year's Adjustments	0.00	18,408,867.08	18,408,867.08
BALANCE AT DECEMBER 31, 2019	P20,883,551.52	P234,116,440.79	P254,999,992.31

BALIWAG WATER DISTRICT
Baliwag, Bulacan
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019
(With Comparative Figures for CY 2018)

	Note	2019	2018
Cash Flows from Operating Activities			
Cash Inflows			
Additional Petty Cash Fund	P	31,000.00	P 0.00
Cash Debit Adjustments		51,742.47	0.00
Collection of Accounts Receivable		211,185,957.13	197,016,105.10
Collection of Service Fees and Charges		12,033,115.60	11,105,256.00
Collection of Other Receivables		3,215,504.86	4,261,686.28
Proceeds from Sale of Materials		409,073.00	417,677.00
Refund of Cash Advances		654,640.96	709,632.17
Miscellaneous Receipts		5,061,851.82	724,773.39
Cancellation of Stale Check		0.00	1,604,019.63
Restoration of Unreleased Check		316,235.91	2,464,303.63
Total Cash Inflows		232,959,121.75	218,303,453.20
Cash Outflows			
Cash Credit Adjustment		68,556.42	0.00
Payment of Personnel Services		36,257,310.22	32,590,311.91
Payment of MOOE		92,011,851.30	83,730,886.73
Payment of Accounts Payable		15,956,328.79	16,796,570.22
Payment of Cash Advances		6,720,789.91	5,304,228.76
Replenishment of Working Fund		310,189.26	154,617.26
Remittances - GSIS, BIR, PhilHealth, Pag-IBIG		15,817,386.31	20,669,541.29
Contribution to Provident Fund		14,908,638.07	6,192,887.83
Miscellaneous Disbursements		6,142,160.71	3,290,244.47
Returned Checks issued by concessionaires		0.00	62,786.00
Reversal of Unreleased Check		371,157.95	2,653,826.80
Total Cash Outflows		188,564,368.94	171,445,901.27
Net Cash Provided by (Used in) Operating Activities		44,394,752.81	46,857,551.93
Cash Flows from Investing Activities			
Cash Inflows			
Interest on Savings Deposits		9,916.89	7,142.67
Proceed from Loan Availments		2,975,085.00	0.00
Total Cash Inflows		2,985,001.89	7,142.67
Cash Outflows			
Purchase/Construction of PPE		10,089,103.76	11,419,013.68
Total Cash Outflows		10,089,103.76	11,419,013.68
Net Cash Provided by (Used in) Investing Activities		(7,104,101.87)	(11,411,871.01)
Cash Flows from Financing Activities			
Cash Outflows			
Finance Charges		(104,087.28)	(7,937.47)
Payment of Principal/Interest		(28,191,418.99)	(33,614,991.95)
Total Cash Outflows		(28,295,506.27)	(33,622,929.42)
Cash Used in Financing Activities		(28,295,506.27)	(33,622,929.42)
Increase (Decrease) in Cash and Cash Equivalents		8,995,144.67	1,822,751.50
Cash and Cash Equivalents - January 1		8,467,177.53	6,644,426.03
Cash and Cash Equivalents - December 31	4	P 17,462,322.20	P 8,467,177.53

The notes on pages 8 to 30 form part of these statements.

NOTES TO FINANCIAL STATEMENTS

1. Agency Information and Authorization for Issue of the Financial Statements

The District was created pursuant to Presidential Decree No. 198, otherwise known as the “Local Water Utilities Act of 1973”, as amended by PD Nos. 768 and 1479, and by virtue of the Local Sangguniang Bayan Resolution No. 011 series of 1988. On July 6, 1989, the Conditional Certificate of Conformance (CCC) No. 407 was issued by Local Water Utilities Administration (LWUA) to formalize its establishment. This CCC is the accreditation of LWUA to a newly-formed water district to operate under the standard specification.

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The District was formed for the purpose of acquiring, installing, improving, maintaining and operating water supply and distribution system for the residents of Baliwag, Bulacan.

The District’s Board of Directors is composed of the following:

<u>Name</u>	<u>Position/Designation</u>	<u>Sector</u>
Ms. Maria Manolita C. Cruz	Chairman	Civic
Mr. Conrado E. Evangelista	Vice-Chairman	Education
Ms. Hazel M. Galang	Secretary	Women
Ms. Victoria G. Canozo	Treasurer	Professional
Mr. Florido S. Santos	Member	Business

The District has 159 personnel and headed by General Manager Artemio F. Baylosis.

1.1 Authorization for Issue of the 2019 Financial Statements

The financial statements of the District for the year ended December 31, 2019 were authorized for issue by the Board of Directors on February 11, 2020 as reflected in the Statement of Management’s Responsibility for Financial Statements signed by the BOD Chairman.

2. Summary of Significant Accounting Systems and Policies

2.1 Basis of Financial Statements Presentation

The financial statements of the District have been prepared using historical cost basis. The financial statements are presented in Philippine Peso (₱), which is the District's functional and presentation currency. All values are rounded off to two decimal places, except when otherwise indicated.

For the year ended December 31, 2019, the District prepared its financial statements (FS) in accordance with generally accepted accounting principle in the Philippines and Philippine Financial Reporting Standards (PFRS).

2.2 Statement of Compliance

The financial statements were prepared in compliance with PFRS, which includes statements named PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council and Revised Chart of Accounts (RCA) for Government Corporations prescribed in COA Circular Nos. 2015-010 and 2016-006 dated December 1, 2015 and December 29, 2016, respectively.

2.3 Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of the District's financial statements are summarized below.

2.3.1 Current versus Noncurrent Classification

The District presents assets and liabilities in the statement of financial position based on current or noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be settled within twelve months after the reporting period; or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The District classifies all other liabilities as noncurrent.

2.3.2 Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the District. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The District uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the District determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the District has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

2.3.3 Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash in bank earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

2.3.4 Financial Instruments

Date of recognition

The District recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial recognition of financial instruments

Financial instruments are initially recognized at fair value, which is the fair value of the consideration given (in case of a financial asset) or received (in case of a financial liability). Except for securities at Fair Value through Profit or Loss (FVPL), the initial measurement of financial instruments includes transaction costs.

The District classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, available for sale (AFS) financial assets and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, reevaluates this classification at every reporting date.

As at December 31, 2019 and 2018, the District does not have financial assets and financial liabilities at FVPL, HTM investments, and AFS.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. These are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in "Interest income" in profit or loss. The losses arising from impairment of such loans and receivables are recognized as "Provision for probable losses and doubtful accounts" in profit or loss.

As at December 31, 2019 and 2018, this category includes the District's Receivables account.

Financial Liabilities Measured at Amortized Cost

These are the financial liabilities which are not designated at FVPL. Financial liabilities not designated as FVPL are measured at amortized cost after initial measurement using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Included in this category are the District's accounts payable, accrued expenses, inter-agency payables, loans payable, other payables and guarantee deposits payable to customers.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. The amortization is included in the interest expense in the District's Statement of Comprehensive Income.

2.3.5 Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- The right to receive cash flows from the asset has expired;
- The District retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The District has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

When the District has transferred its right to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the District's continuing involvement in the asset. Continuing

involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the District could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired.

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

Loans and receivables

For loans and receivables carried at amortized cost, the District first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the District determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

2.3.6 Impairment of Financial Assets

The District assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic condition that correlate with default. For the District's receivables from customers, evidence of impairment may include non-collection of water bills despite of sending series of demand letters to delinquent concessionaires.

As at December 31, 2019 and 2018, the District has no impaired financial assets.

2.3.7 Offsetting Financial Instruments

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

2.3.8 Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity; or
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the District; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the District does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

2.3.9 Inventories

Inventories are valued at the lower of cost or net realizable value (NRV). Cost is determined using the moving average method.

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

2.3.10 Property, Plant and Equipment (PPE)

PPE, except land, are stated at cost less accumulated depreciation and amortization and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of PPE comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the PPE to its working condition and location for its intended use, including capitalized borrowing costs incurred during the construction period.

Expenditures incurred after the PPE have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of PPE beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the related PPE.

Depreciation and amortization of PPE commences once the PPE are available for use and are calculated on a straight-line basis over the estimated useful lives (EUL) of the PPE as follows:

<u>Category</u>	<u>Number of years</u>
Office furniture and equipment	5
Transportation equipment	7
Machinery and equipment	10
Building and other structures	30

The EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of PPE.

Fully depreciated PPE are retained in the accounts until they are no longer in use and no further depreciation are charged to current operations.

When PPE is retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated impairment, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Recognition

An item is recognized as PPE if it meets the characteristics and recognition criteria as a PPE. The characteristics of PPE are as follows:

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

An item of PPE is recognized as an asset if:

- It is probable that future economic benefits or service potential associated with the item will flow to the entity;
- The cost or fair value of the item can be measured reliably; and
- The cost is at least ₱15,000.00.

Measurement at recognition

An item recognized as PPE is measured at cost. Cost includes the following:

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

Measurement after recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

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

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

Depreciation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

Initial recognition of depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. For simplicity and to avoid proportionate computation, the depreciation is for one month if the PPE is available for use on or before the 15th of the month. However, if the PPE is available for use after the 15th of the month, depreciation is for the succeeding month.

Depreciation method

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

Estimated useful life

The District uses the life span of PPE prescribed by COA in determining the specific estimated useful life for each asset based on its experience.

Residual value

The District uses a residual value equivalent to at least ten percent (10%) of the cost of the PPE.

Impairment

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

Derecognition

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

2.3.11 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated

intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in the statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

2.3.12 Impairment of Non-Financial Assets

The District assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the District estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A

previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

As at December 31, 2019 and 2018, the District has no reported impaired non-financial assets.

2.3.13 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the District and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

2.3.14 Income from Waterworks System

Water revenue are recognized when the related water services are rendered. Water is billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers.

For the period ending December 31, 2019 and 2018, Income from Waterworks System was classified under Business Income in the Statement of Comprehensive Income.

2.3.15 Fines and Penalties not related to taxes

The District recognizes revenue from fees and fines, except those related to taxes, when earned and the asset recognition criteria are met. Deferred income is recognized instead of revenue if there is a related condition attached that would give rise to a liability to repay the amount.

The District charges fines and penalties to customers when there is a delay in the payment of water bill. A penalty of 10% of the water bill is automatically charged by the Billing and Collection System the day following the due date.

For the period ending December 31, 2019 and 2018, Fines and Penalties was classified under Business Income in the Statement of Comprehensive Income.

2.3.16 Other Business Income

Other customer related fees such as connection, reconnection and disconnection fees are recognized when these services have been rendered.

2.3.17 Interest Income

Interest income is recognized as it accrues, taking into account the effective yield of the assets.

2.3.18 Cost of Services and Operating Expenses

Cost of services and operating expenses are recognized as they are incurred. Cost and expenses are recognized in the profit or loss when a decrease in future economic benefit related to a decrease of an asset or an increase of a liability has arisen other than distributions to equity participants that can be measured reliably. Cost and expenses are recognized in the profit or loss on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, cease to qualify, for recognition in the statement of financial position as an asset.

For the period ending December 31, 2019 and 2018, cost of services and operating expenses includes personnel services, maintenance and other operating expenses, financial expenses and non-cash expenses.

2.3.19 Income Tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of the reporting date.

Deferred tax

Deferred tax is provided, using the liability method, for all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset shall be recognized for all deductible temporary differences and operating loss carry forward when it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. (PAS12.24)

Pursuant to Presidential Decree 198, under section 14 - Department of Justice ruling under case no. OSJ-2005-03 states that the Water Districts are exempted from Income tax and only liable to two percent (2%) Franchise Tax on its gross receipts. Recognition of deferred tax is not applicable as stated above.

2.3.20 Provisions and Contingencies

Provisions

A provision is recognized when the District has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. When the District expects a provision to be reimbursed, the reimbursement is not recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2.3.21 Employee Benefits

The employees of the District are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage. Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees.

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the District's financial statements in compliance with PFRS requires Management to make judgments, estimates and assumptions that affect the amounts reported and disclosure in the financial statements and the related notes. Judgments, estimates and assumptions are continually evaluated and are based on historical experience

and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results could differ from those estimates, and such, will be adjusted accordingly.

The District believes the following represent a summary of these significant judgments, estimates and assumptions, and the related impact and associated risks in the financial statements.

3.1 Judgments

In the process of applying the District's accounting policies, Management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statements.

Determination of impairment of non-financial asset

The District assesses the impairment of non-financial assets (PPE, other current assets, and other noncurrent assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the District considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of usage of the acquired assets or the strategy for the District's overall business; and
- Significant negative industry or economic trends.

In 2019 and 2018, the District has not identified any impairment indicator, thus, no impairment was recognized.

3.2 Estimates and Assumptions

Key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed on the next page.

Determination of impairment of receivables

The District reviews its receivables at each reporting date to assess whether provision for doubtful accounts should be recorded in profit or loss. The District maintains an allowance for impairment - accounts receivable based on the results of the individual and collective impairment assessments under PAS 39. Allowance for impairment - accounts receivable is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectability. These factors include, but not limited to, age and status of receivables, the concessionaire's payment behavior and known market factors. An

evaluation of receivables, designed to identify potential charges to the allowance is performed on a continuous basis throughout the year.

The District computes the Allowance for Impairment-Accounts Receivable based on the aging of receivables.

Determination of estimated useful lives of PPE

The useful life of each of the District's item of PPE is estimated based on the period over which the asset is expected to provide economic benefits. Such estimation is based on a collective assessment of similar business, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of PPE would increase the recorded depreciation expense and decrease the carrying value of PPE.

4. Cash and Cash Equivalents

This account pertains to cash collecting officers, petty cash and cash in bank readily available in the payment of current obligations of the District and not subject to any restriction, contractual or otherwise. This consists of the following balance.

	2019	2018
Cash – Collecting Officers	₱ 2,544,117.72	₱ 730,939.32
Petty Cash	50,000.00	19,000.00
Cash in Bank – Local Currency, Current Account	9,086,438.93	1,764,107.93
Cash in Bank – Local Currency, Savings Account	5,781,765.55	5,953,130.28
Total Cash and Cash Equivalents	₱17,462,322.20	₱8,467,177.53

The balance of Cash in Bank – Local Currency, Current Account includes the cost of two unreleased checks totaling ₱37,806.56 which were not reverted as of year-end. These checks were received by the concerned payees on January 2, 2020.

5. Receivables, Net

This includes all amounts due on open accounts arising from services rendered to the customers for water sales and incidental services.

	2019	2018
Accounts Receivable (AR)	₱12,549,624.17	₱11,501,641.65
Allowance for Impairment – AR	(1,254,962.42)	(1,150,164.17)
Notes Receivable	1,514,885.55	1,593,137.41

Due from LGUs	6,176,019.32	6,142,590.57
Receivables – Disallowances/Charges	264.74	15,328.10
Other Receivables	64,123.73	0.00
Receivables, Net	₱19,049,955.09	₱18,102,533.56

Below is the aging of AR:

Age of AR	2019	2018
1 – 60 days	₱ 7,197,944.22	₱ 6,473,072.61
61 – 120 days	570,726.96	571,269.69
121 days – 1 year	675,182.40	777,064.19
over 1 year	4,105,770.59	3,680,235.16
Total AR	₱12,549,624.17	₱11,501,641.65

6. Inventories

This account pertains to unissued materials and supplies, which are kept in stock and held for future use.

	2019	2018
Office Supplies Inventory	₱ 258,242.74	₱ 303,631.76
Accountable Forms, Plates and Stickers Inventory	1,013,800.00	1,187,050.00
Chemical and Filtering Supplies Inventory	474,447.00	320,280.00
Construction Materials Inventory	7,185,404.11	5,465,164.67
Total Inventories	₱ 8,931,893.85	₱ 7,276,126.43

7. Other Assets

This represents the unliquidated cash advances granted to officials and employees of the District, meter and bill deposits to Manila Electric Company (MERALCO) and bond deposits to Department of Public Works and Highways (DPWH).

	2019	2018
Advances for Operating Expenses	₱ 0.00	₱ 20,661.00
Advances to Special Disbursing Officer	0.00	193,100.00
Advances to Officers and Employees	0.00	222,124.67
Other Deposits	2,907,339.70	3,058,802.98
Other Assets	3,804,643.76	0.00
Total Other Assets	₱6,711,983.46	₱3,494,688.65

8. Investments in Time Deposits – Local Currency

This account is used to recognize authorized placements of cash in local currency with Authorized Government Depository Banks for a period of 91 days or more

	2019	2018
Investments in Time Deposits – Local Currency	₱ 716,259.29	₱ 712,096.76
Total Investments in Time Deposits – Local Currency	₱ 716,259.29	₱ 712,096.76

9. Property, Plant and Equipment (PPE), Net

This includes all properties of relatively permanent character that are used in normal operations of the District. The breakdown of this account is as follows:

CY 2019					
PPE Account	Balance at January 1	Additions/ Acquisitions	Disposals/ Reclassification	Accumulated Depreciation	PPE, Net
Land	₱ 17,487,546.76	₱ 0.00	₱ 0.00	₱ 0.00	₱ 17,487,546.76
Other Land					
Improvements	1,654,130.00	0.00	0.00	0.00	1,654,130.00
Water Supply Systems	431,886,560.80	17,385,235.17	(43,505,380.04)	161,687,561.00	244,078,854.93
Buildings	74,574,003.04	35,497,777.39	0.00	29,400,227.60	80,671,552.83
Machinery and Equipment	54,992,716.70	2,923,838.00	(19,100.00)	38,078,352.74	19,819,101.96
Motor Vehicles	26,612,691.90	379,006.00	(901,000.00)	12,361,857.99	13,728,839.91
Furniture and Fixtures	5,461,525.76	273,099.50	(19,500.00)	4,099,233.07	1,615,892.19
Other PPE	156,122.00	33,000.00	0.00	141,683.85	47,438.15
Construction in Progress	5,179,572.31	7,694,675.27	(9,996,969.11)	0.00	2,877,278.47
Total	₱618,004,869.27	₱64,186,631.33	(₱54,441,949.15)	₱245,768,916.25	₱381,980,635.20

CY 2018					
PPE Account	Balance at January 1	Additions/ Acquisitions	Disposals/ Reclassification	Accumulated Depreciation	PPE, Net
Land	₱ 17,487,546.76	₱ 0.00	₱ 0.00	₱ 0.00	₱ 17,487,546.76
Other Land					
Improvements	1,654,130.00	0.00	0.00	0.00	1,654,130.00
Water Supply Systems	416,352,167.48	15,534,393.32	0.00	183,238,677.69	248,647,883.11
Buildings	73,890,671.98	683,331.06	0.00	16,937,460.24	57,636,542.80
Machinery and Equipment	52,710,246.90	3,653,159.80	(1,370,690.00)	30,452,591.26	24,540,125.44
Motor Vehicles	26,409,539.90	203,152.00	0.00	11,585,586.74	15,027,105.16
Furniture and Fixtures	5,357,209.76	104,316.00	0.00	3,663,334.41	1,798,191.35
Other PPE	156,122.00	0.00	0.00	136,978.65	19,143.35
Construction in Progress	5,382,202.00	11,907,991.97	(12,110,621.66)	0.00	5,179,572.31
Total	₱599,399,836.78	₱32,086,344.15	(₱13,481,311.66)	₱246,014,628.99	₱371,990,240.28

The Land account as of CY 2019 under the possession of the District pertained to the following:

Land	Qty.	Lot Area	Acquisition Cost		Total
			Through Purchase	Through Donation	
With Transfer Certificate of Title (TCT)	14	6,402	₱12,635,450.00	₱2,245,748.76	₱14,881,198.76
Without TCT	2	835.82	2,606,348.00	0.00	2,606,348.00
Total Land	16	7,237.82	₱15,241,798.00	₱2,245,748.76	₱17,487,546.76

The following information pertain to the two parcels of land which have no TCT yet:

1. Barangay San Jose

- a) The lot located in Barangay San Jose, Baliuag, Bulacan was purchased thru installment basis from Mr. Wilfredo L. Santiago;
- b) A Deed of Conditional Sale was executed by and between the District and Mr. Santiago on October 11, 2012;
- c) Among the terms and conditions stated in the Deed of Conditional Sale was that a Deed of Absolute Sale in favor of the District will be executed only when the total amount of ₱2,262,000.00 had already been fully paid; and

2. Barangay Tibag

The Deed of Sale for Barangay Tibag was misplaced and only a subdivision plan was found. The District have already sought the help of the Register of Deeds.

The Management exerts effort to secure the covering TCTs on the above parcels of land to protect the District's interest and in order to document the absolute ownership thereon.

10. Financial Liabilities

This account includes long-term obligations of the District and amounts payable to the suppliers, as shown below.

	2019	2018
Current		
Accounts Payable	₱ 3,082,362.47	₱ 2,322,320.04
Loans Payable – Domestic		
LWUA	1,225,076.00	1,128,946.00
LBP	17,655,644.76	19,655,644.80
Vehicle Loan	367,558.86	404,671.15
Total Financial Liabilities – Current	22,330,642.09	23,511,581.99
Non-Current		
Loans Payable – Domestic		
LWUA	1,492,848.65	2,717,924.65

	2019	2018
LBP	103,515,249.45	121,170,894.01
Vehicle Loan	0.00	367,558.86
Total Financial Liabilities – Non Current	105,008,098.10	124,256,377.52
Total Financial Liabilities	₱127,338,740.19	₱147,767,959.51

Loans Payable represents the long-term obligations of the District, the proceeds of which were used to finance various infrastructures and permanent improvements in order to meet the demands of the growing clientele. Repayments are made monthly based on the agreed terms and schedule provided in the loan agreement.

11. Inter-Agency Payables

This represents contributions due, collections received, amounts withheld for remittance to the following government agencies.

	2019	2018
Current		
Due to BIR	₱1,742,693.09	₱1,538,806.98
Due to GSIS	1,135,654.07	1,010,003.94
Due to Pag-IBIG	169,032.43	115,338.65
Due to Philhealth	86,185.63	75,148.26
Due to Others	0.00	0.00
Total Inter – Agency Payables – Current	3,133,565.22	2,739,297.83
Non – Current		
Due to LGUs	3,420,845.00	3,420,845.00
Total Inter – Agency Payables – Non – Current	3,420,845.00	3,420,845.00
Total Inter – Agency Payables	₱6,554,410.22	₱6,160,142.83

Due to LGUs pertains to the waterworks facilities transferred by the Municipality of Baliwag which were managed, operated by and under the control of the District. These properties will be offset in lieu of the water consumed by the LGU as agreed upon by both parties.

12. Trust Liabilities

These are guarantee deposits from supplier and advance payment of water bill from concessionaires.

	2019	2018
Trust Liabilities	₱ 30,435.63	₱ 0.00
Guaranty/Security Deposits Payable	4,520,277.38	4,644,771.13
Customers' Deposits Payable	360,500.06	195,241.24
Total Trust Liabilities	₱4,911,213.07	₱4,840,012.37

13. Other Deferred Credits

This account is used to recognize other transactions not falling under any of the specific deferred credits accounts. It include proceeds from loan availments, payment of resigned employees' loan amortization to LBP and sale of materials.

	2019	2018
Other Deferred Credits	₱3,912,671.33	₱960,308.55
Total Other Deferred Credits	₱3,912,671.33	₱960,308.55

14. Leave Benefits Payable

This account is used to recognize accrual of money value of the earned leave credits of government personnel.

	2019	2018
Leave Benefits Payable	₱19,625,306.75	₱15,612,050.69
Total Leave Benefits Payable	₱19,625,306.75	₱15,612,050.69

15. Other Payables

This account is used to recognize other liabilities not falling under any of the specific payable accounts such as Provident Fund Employers' Shares, Provident Fund Personal Shares and Loans, Rice Allowance and Other Suppliers.

	2019	2018
Other Payables	₱17,510,715.22	₱19,393,619.71
Total Other Payables	₱17,510,715.22	₱19,393,619.71

16. Business Income

These are the water sales, interest income, penalty charges for late payments and violation, new connection fees and septage fees generated by the District from its concessionaires.

	2019	2018
Waterworks System Fees	₱205,697,528.22	₱192,228,738.11
Interest Income	16,558.65	13,422.83
Fines and Penalties – Business Income	8,126,880.75	7,477,749.13
Other Business Income	13,759,005.75	12,907,283.50
Total Business Income	₱227,599,973.37	₱212,627,193.57

17. Total Other Gains

These are proceeds from materials purchased by concessionaires to the District.

	2019	2018
Other Gains	₱119,115.24	₱85,811.84
Total Other Gains	₱119,115.24	₱85,811.84

18. Other Non – Operating Income

These are proceeds from sale of unserviceable property, reversal of impairment loss and miscellaneous income of the District.

	2019	2018
Sale of Unserviceable Property	₱ 509,846.00	₱ 18,855.00
Reversal of Impairment Loss	0.00	496,376.53
Miscellaneous Income	3,398,388.01	333,446.45
Total Other Non – Operating Income	₱3,908,234.01	₱848,677.98

19. Personnel Services

	2019	2018
Salaries and Wages	₱44,259,018.75	₱37,793,636.10
Other Compensation	19,616,059.51	18,291,849.10
Personnel Benefits Contributions	9,823,927.66	8,439,288.27
Other Personnel Benefits	8,626,697.21	7,100,596.48
Total Personnel Services	₱82,325,703.13	₱71,625,369.95

20. Maintenance and Other Operating Expenses (MOOE)

	2019	2018
Travelling Expenses	₱2,307,979.95	₱1,559,633.44
Training Expenses	1,094,548.32	1,131,964.32
Supplies and Materials Expenses	1,975,404.47	1,985,144.15
Electricity Expenses	2,155,083.19	2,156,180.84
Communication Expenses	582,031.49	566,574.13
Awards/Rewards Expenses	569,046.00	492,130.00
Survey Expenses	0.00	0.00
Generation, Transmission and Distribution Expenses	54,367,807.95	52,134,109.69
Extraordinary and Miscellaneous Expenses	5,388,174.65	4,285,255.78
Professional Services	309,064.80	574,602.22
General Services	11,858,090.97	10,408,357.41
Repairs and Maintenance	7,135,031.63	5,400,186.75
Taxes, Insurance Premiums and Other Fees	5,324,962.47	5,149,631.65

	2019	2018
Other Maintenance and Operating Expenses	3,521,401.71	3,101,407.01
Total MOOE	₱96,588,627.60	₱88,945,177.39

21. Financial Expenses

	2019	2018
Interest Expenses	₱7,435,410.55	₱8,758,138.10
Bank Charges	0.00	0.00
Other Financial Charges	18,099.85	8,387.47
Total Financial Expenses	₱7,453,510.40	₱8,766,525.57

22. Non-Cash Expenses

	2019	2018
Depreciation		
Infrastructure Assets	₱13,297,951.64	₱19,702,980.07
Buildings and Other Structures	4,267,272.56	3,185,085.42
Machinery and Equipment	4,134,418.68	4,646,356.25
Transportation Equipment	1,587,171.25	1,707,289.55
Furniture, Fixtures and Books	453,448.65	436,096.45
Other Property, Plant and Equipment	4,705.20	2,230.20
Impairment Loss – Loans and Receivables	104,798.25	0.00
Other Discounts	127,359.58	118,395.65
Total Non-Cash Expenses	₱23,977,125.81	₱29,798,433.59

PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS

PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS

Doubtful accuracy, existence and completeness of Property, Plant and Equipment (PPE)

1. *The accuracy, existence and completeness of Property, Plant and Equipment (PPE) account with carrying amount of ₱381,980,635.20 were doubtful due to the inclusion of (a) intangible assets with carrying amount of ₱974,650.92 which were previously recognized as Information and Communication Technology Equipment account; and (b) semi expendable items costing below ₱15,000.00, contrary to the provisions of Annex A of COA Circular 2015-010. Likewise, Report on the Physical Count of PPE (RPCPPE) was not prepared in accordance with the provisions of Sections 490 and 55.a.1a of the GAAM Volume I and III, respectively, thus, no reconciliation was made between the PPE Lapsing Schedule and RPCPPE from Finance and General Services Division.*

(a) *Intangible assets erroneously recognized as Information and Communication Technology Equipment*

1.1 The PPE accounts with a carrying amount of ₱381,980,635.20 as of December 31, 2019 represents majority or 87.84 per cent of the total assets of the District.

1.2 Review of the accounts based on the lapsing schedule disclosed that various payments made relative to the accounting systems of the District with carrying amount of ₱974,650.92 were recognized as Information and Communication Technology Equipment instead of Computer Software. The details are shown below:

Particulars	Acquisition Cost	Accumulated Depreciation	Carrying amount
30% down payment for the upgrading of windows-based of Billing and Collection system (palm data)	₱75,000.00	₱67,500.00	₱7,500.00
Professional fee for the upgrading of Billing and Collection system (Senior Citizen Discounting)	22,000.00	19,800.00	2,200.00
Initial payment of the contract for Website Development and Web Domain Registration and Hosting of BWD	60,000.00	54,000.00	6,000.00
Complete development of BWD Geographic Information system (phase 1)	1,969,637.01	1,772,673.31	196,963.70
Complete development of BWD Geographic Information System (phase 2)	2,965,447.02	2,668,902.32	296,544.70
Full payment for the services rendered for the BWD website and web hosting development	24,500.00	22,050.00	2,450.00
1 lot Development of Application Program Interface (API) for online payment	40,000.00	31,800.00	8,200.00
40% down payment for the 5-week project development of the system of BWD	30,000.00	5,850.00	24,150.00
1 lot Creative Cloud All Apps (Adobe) Software for Photo and Video editing	53,592.00	4,019.40	49,572.60
Software cost of Billing and Collection and	70,550.00	63,495.00	7,055.00

Particulars	Acquisition Cost	Accumulated Depreciation	Carrying amount
Accounting System			
Installation of Accounting Program	15,000.00	13,500.00	1,500.00
Labor and materials for the upgrading of 2 units computer	45,165.00	40,648.50	4,516.50
Networking of Billing and Collection Program	12,500.00	11,250.00	1,250.00
Computerization of Payroll and Inventory	40,000.00	36,000.00	4,000.00
Installation of US-Robotics, Internet Plan, Cleaning of Computer	5,800.00	5,220.00	580.00
Program Cost of Materials and Inventory of BWD 00884	5,000.00	4,500.00	500.00
Program cost of Materials and Inventory of BWD 00925	15,000.00	13,500.00	1,500.00
Installation of Window-based Billing and Collection System	65,000.00	58,500.00	6,500.00
Window-Based Accounting Program of BWD	33,000.00	29,700.00	3,300.00
Additional Features on existing Window-Based and Collection System	12,000.00	10,800.00	1,200.00
Installation of BWD's Depreciation Schedule System	15,000.00	13,500.00	1,500.00
Installation of Window Based Inventory System	30,000.00	27,000.00	3,000.00
40% down payment for the groundwater resources	220,000.00	198,000.00	22,000.00
1 unit Windows XP 1 unit office 2003 Professional	32,424.00	29,181.60	3,242.40
20% DP for the upgrading of Billing and Collection System.	35,000.00	31,500.00	3,500.00
Payment of NGAS Program	126,982.00	114,283.80	12,698.20
Full payment of Network modelling program of BWD water supply system.	279,767.25	251,790.53	27,976.72
Full payment window-based accounting system	28,000.00	25,200.00	2,800.00
30% down payment for the installation of Windows-based NGAS Accounting system of BWD	35,000.00	31,500.00	3,500.00
1 lot BENTLEY Watergems/5000 pipes softwares package	2,492,000.00	2,242,800.00	249,200.00
1 unit CYBEROAM identity-based utm firewall with license comp. with 3 yrs. subscription includes install and configuration	197,511.00	177,759.90	19,751.10
Total	₱9,050,875.28	₱8,076,224.36	₱974,650.92

1.3 Inquiry with the OIC – Department Manager Finance revealed that the former employee of the District adjusted the said intangible assets to Information and Communication Technology Equipment in CY 2012 in compliance with the previous audit recommendation and the said account was not reclassified based on the Revised Chart of Accounts (RCA) as prescribed under COA Circular No. 2015-010 dated December 01, 2015. These items however were properly accounted for as Intangible Assets under their Depreciation System. She also commented that Management will take the necessary adjustments for these accounts.

1.4 The failure to restore the cost of Intangible Assets based on the Revised Chart of Accounts (RCA) as prescribed under COA Circular No. 2015-010 dated December 01, 2015 understated the Computer Software by ₱9,050,875.28, Accumulated Amortization – Computer Software by ₱8,076,224.36 and overstated the Information and Communication Technology Equipment and its Accumulated Depreciation by the same amount.

(b) *Semi-expendable items costing below ₱15,000.00 threshold misclassified as PPE*

1.5 Further analysis of accounts based on the Lapsing Schedule also revealed that 20 semi-expendable items below the ₱15,000.00 threshold with total carrying amount of ₱139,021.01 were misclassified as Property, Plant and Equipment instead of the appropriate inventory account upon purchase and expense after issuance. The list of these properties follows:

Account Code	Account Title/Particulars	Acquisition Cost	Accumulated Depreciation	Carrying amount
10605010	Machinery			
	1 pc. Electronic Control Power Board	₱8,900.00	₱66.75	₱8,833.25
10605020	Office Equipment			
	Industrial Coffee Maker	3,600.00	1,080.00	2,520.00
	2 pcs. KYOWA Water Dispenser	11,500.00	3,450.00	8,050.00
	Sub-total	15,100.00	4,530.00	10,570.00
10605030	Information and Communication Technology Equipment			
	1 unit Acer LED Monitor 21.5"	6,800.00	2,346.00	4,454.00
	1 pc. APC 625VA UPS	3,450.00	1,190.25	2,259.75
	1 unit EPSON LX-310 Dot Matrix Printer	9,850.00	3,398.25	6,451.75
	10 units R18-05158 WIN SVR CAL 2016 OLP NL GOV DVCCAL	14,500.00	4,132.50	10,367.50
	1 unit EPSON L-360 Printer w/ CISS	8,500.00	2,295.00	6,205.00
	2 pcs. APC 625VA UPS	6,900.00	1,863.00	5,037.00
	4 pcs. Symbol LS1203 Barcode Scanner	14,840.00	4,006.80	10,833.20
	2 units 21.5" Acer LED monitor KA220HQ	13,000.00	2,730.00	10,270.00
	1 unit UPS 625VA	3,450.00	724.50	2,725.50
	1 pc. 625 VA UPS	3,450.00	569.25	2,880.75
	2 units LED monitor 22"	13,000.00	1,365.00	11,635.00
	1 unit 24" LED HKC Monitor	6,500.00	292.50	6,207.50
	2 units BX625 UPS	7,980.00	359.10	7,620.90
	1 unit EPSON Printer L3110 for Finance Department	7,850.00	117.75	7,732.25
	1 unit EPSON Printer L3110 for Commercial Department	7,850.00	117.75	7,732.25
	Sub-total	127,920.00	25,507.65	102,412.35
	Total Machinery and Equipment	151,920.00	30,104.40	121,815.60
10607010	Furniture and Fixtures			
	10 pcs. Visitors Chair CF-304BM	12,800.00	4,032.00	8,768.00
	3 units Movable Cabinet with 3 drawer centralized lock model: L-101	8,835.00	397.59	8,437.41
	Total Furniture and Fixtures	21,635.00	4,429.59	17,205.41

Account Code	Account Title/Particulars	Acquisition Cost	Accumulated Depreciation	Carrying amount
GRAND TOTAL		₱173,555.00	₱34,533.99	₱139,021.01

1.6 Interview with the Property Officer and validation of the Property Acknowledgement Receipts showed that the above mentioned properties were already issued to the District's personnel and used in its operations as of year-end.

1.7 The OIC – Department Manager - Finance mentioned that the usual practice of the District in handling semi expendable items was to capitalize the said items as PPE. In compliance with the previous year's audit recommendation, the Corporate Budget Analyst B directly charged the said properties to Repairs and Maintenance – Semi Expendable instead of the appropriate inventory account upon purchase and expense after issuance.

1.8 COA Circular No. 2015-010 dated December 01, 2015 prescribes the adoption of the Revised Chart of Accounts (RCA) for Government Corporations (GCs) which consist of Government-Owned or Controlled Corporations (GOCCs), Government Financial Institutions (GFIs), Government Instrumentalities with Corporate Powers (GICPs)/Government Corporate Entities (GCEs) and their Subsidiaries, and Water Districts. Item 2.2 of the Implementing Guidelines of the said Circular states that:

2.2 *The GCs shall record their financial transactions in accordance with the RCA prescribed herein.*

1.9 Annex A of the aforecited Circular further provides the following accounts for use of the GCs:

Account Title Computer Software
Account Number 10801020
Normal Balance Debit
Description This account is used to recognize the purchase cost or capitalized development cost of computer software programs for use in government operation. Development costs include cost of coding, testing and cost to produce product masters. Credit this account for obsolescence, transfers or other disposal.

Account Title Accumulated Amortization-Computer Software
Account Number 10801021
Normal Balance Credit
Description This account is credited for the allocation cost of computer software in accordance with the prescribed policy on amortization. Debit this account for obsolescence of the computer software, transfers or other disposal.

<i>Account Title</i>	<i>Semi-Expendable Machinery and Equipment Expenses</i>
<i>Account Number</i>	<i>50203210</i>
<i>Normal Balance</i>	<i>Debit</i>
<i>Description</i>	<i>This account is used to recognize the cost of semi-expendable machinery and equipment used in operation. This account shall be closed to the Revenue/Income and Expense Summary account.</i>

<i>Account Title</i>	<i>Semi-Expendable Furniture, Fixtures and Books Expenses</i>
<i>Account Number</i>	<i>50203220</i>
<i>Normal Balance</i>	<i>Debit</i>
<i>Description</i>	<i>This account is used to recognize the cost of semi-expendable furniture, fixtures and books used in operation. This account shall be closed to the Revenue/Income and Expense Summary account.</i>

1.10 The recognition of semi-expendable items below the ₱15,000.00 threshold as Machinery and Equipment and Furniture and Fixtures resulted in the overstatement of the Property, Plant and Equipment, its corresponding Accumulated Depreciation and Retained Earnings Accounts by ₱173,555.00, ₱34,533.99 and ₱139,021.01, respectively.

c) *Failure to prepare RPCPPE*

1.11 PPE is a group of asset that is vital to the District's operations because its revenue generation greatly depends on its usage more particularly those located in the Pumping Stations. Likewise, inventory taking of these properties is important in order to assess its existence and condition.

1.12 The District already created an Inventory Committee to conduct physical inventory of its PPE. However, validation revealed that the preparation of RPCPPE as at December 31, 2019 was still in process contrary to Section 490 of the Government Accounting and Auditing Manual (GAAM), Volume I which states that *Physical stock-taking is an indispensable procedure for checking the integrity of property custodianship. In all cases, the physical inventory-taking which is required semi-annually or annually should be regarded with importance.*

1.13 The designated Property Officer stated that the huge number of properties and the difficulty in identifying the cost of items located within the office buildings delayed the preparation and submission of RPCPPE.

1.14 Section 55.a.1a of GAAM Volume III provides for *periodic reconciliation of accounts which involves verifying the accuracy of one set of records against an independent set of documents.*

1.15 Owing to the non-completion of the RPCPPE, no reconciliation was made between the PPE records of the Finance and General Services Division.

1.16 The above noted deficiencies raised doubt on the existence, accuracy and completeness of the balances of the PPE accounts as of December 31, 2019.

1.17 We recommended and the General Manager agreed to instruct the Corporate Budget Analyst B through the OIC-Department Manager – Finance to prepare the necessary adjusting entries guided by COA Circular No. 2015-010 dated December 01, 2015 to reclassify to the proper accounts the intangible assets with total acquisition cost of ₱9,050,875.28 and semi expendable items amounting to ₱173,555.00 that were included in the PPE accounts.

1.18 We also recommended and the General Manager agreed to (a) instruct the designated Property Officer to prepare and submit the Report on the Physical Count of PPE in compliance with Section 490 of the GAAM, Volume I; and (b) (i) direct the Corporate Budget Analyst B and designated Property Officer to reconcile the PPE balances per accounting records and the Report on the Physical Count of PPE; and (ii) investigate the discrepancies noted, if any, and make the necessary adjustments and reclassification to the proper accounts.

1.19 As agreed during the conduct of exit conference, the OIC - Department Manager – Finance prepared the necessary adjusting entries to reclassify to proper accounts the semi-expendable items and intangible assets per Journal Entry Voucher Nos. 2002-151 and 2002-152 both dated February 17, 2020, respectively.

Unrecorded and unpaid audit fees

2. The District did not recognize as payable the unpaid audit fees for CY 2018 of ₱217,554.74 Commission on Audit – Region III, thereby understating the Accounts Payable and overstating the Retained Earnings contrary to paragraphs 27 and 28 of the Philippine Accounting Standards (PAS) 1 and Chapter 4 of the International Financial Reporting Standards (IFRS) Framework for Expenses.

2.1 The balance of Accounts Payable appearing in the financial statements of the District as of December 31, 2019 amounted to ₱3,082,362.47 which included unpaid audit fees amounting to ₱422,238.24 payable to the Commission on Audit (COA), Regional Office No. III, City of San Fernando, Pampanga.

2.2 Records of the Administrative, Training and Finance Services (ATFS) of the COA Regional Office No. III showed that the Baliwag Water District had an outstanding balance of ₱639,792.98 as of December 31, 2019 which pertained to the unpaid audit fees from audit of transactions for CYs 2015-2018.

2.3 Further review of the Subsidiary Ledger (SL) provided by the District revealed that the audit fee for the audit of accounts and transactions for CY 2018 was not yet recorded in the books of accounts by the Corporate Budget Analyst B. The details of the unrecorded and unsettled audit fees are shown on the next page:

Date	Bill No.	Account Covered	Amount
05/04/2016	2015-05-011	2015	₱156,594.42
09/11/2017	2017-09-017	2016	63,441.60
07/16/2018	2018-07-005	2017	202,202.22
07/16/2019	2019-07-005	2018	217,554.74
Total per record of ATFS			639,792.98
Less: AP recorded per SL of Baliwag Water District			422,238.24
Unrecorded Audit Fee as of December 31, 2019			₱217,554.74

2.4 Paragraphs 27 and 28 of the Philippine Accounting Standards (PAS) 1 and Chapter 4 of the International Financial Reporting Standards (IFRS) Framework for Expenses states the following:

27. *An entity shall prepare its financial statements, except cash flow information, using accrual basis of accounting.*

28. *When the accrual basis of accounting is used, an entity recognizes items of assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework.*

Chapter 4 of the IFRS Framework. Expenses are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment).

2.5 Inquiry with the OIC - Department Manager Finance disclosed that the Corporate Budget Analyst B was preoccupied with the preparation of the Annual Budget for CY 2020 in October 2019 that she overlooked the preparation of journal entries pertaining to the billing of COA for CY 2018 audit. She also stated that the corresponding journal entry was already taken up per JEV No. 2001-314 dated January 30, 2020.

2.6 Since the unpaid audit fees represents expenses incurred in prior year's audit, the same should be recorded in the books as an increase in liability and to be settled immediately. Failure to record the said obligation resulted in understatement of Accounts Payable and overstatement of Retained Earnings.

2.7 We recommended and the General Manager agreed to instruct the OIC - Department Manager, Finance to (a) require the Corporate Budget Analyst B to record the amount due to COA Region III amounting to ₱217,554.74 based on the billings provided by the ATFS and cause the eventual settlement thereof; and (b) monitor closely the compliance of the District regarding the recognition of audit fees and prompt settlement to prevent the occurrence of similar conditions in the future.

2.8 As agreed during the conduct of exit conference, the QIC - Department Manager – Finance prepared the necessary adjusting entry to take up in the books of accounts the unpaid audit fees pertaining to CY 2018 audit per Journal Entry Voucher No. 2002-149 dated February 17, 2020.

Remote Collectability of inactive accounts and receivables from the Municipality

3. The remote collectability of inactive accounts totaling ₱4,702,616.80 accumulated to an alarming level because of the absence of an effective collection policy, while the settlement of active receivables from the Municipality of Baliwag amounting to ₱6,142,590.57 is still under negotiations, thus, depriving the District of the opportunity cost on the funds tied up to these receivables contrary to Section 64 of the Government Accounting and Auditing Manual, Volume I.

a. Inactive accounts - ₱4,702,616.80

3.1 As of December 31, 2019, the balance of Accounts Receivable (AR) of the District amounted to ₱12,549,624.17.

3.2 The Aging Schedule prepared by the Commercial Division showed the following balances of active and inactive accounts for CY 2019:

Status of AR	CY 2019	
	Active	Inactive
Non Past Due Accounts:		
1-30 days	₱5,915,340.60	₱7,997.60
31-60 days	1,117,165.57	157,440.45
Sub-total	7,032,506.17	165,438.05
Past Due Accounts:		
61-120 days	380,258.41	190,468.55
121-365 days	180,279.60	494,902.80
more than 1 year	253,963.19	3,851,807.40
Sub-total	814,501.20	4,537,178.75
Total	7,847,007.37	4,702,616.80
Balance of AR as of end of the year	12,549,624.17	
% of Inactive to balance of AR	37.47%	

3.3 The amount of ₱4,702,616.80 or 37.47 per cent of the total balance of AR as of December 31, 2019 represents inactive accounts. Although an Aging Schedule was prepared, the District was unable to properly identify the age of past due accounts for those over one year. Inquiry with Management disclosed that these included accounts that have been long outstanding for ten years or more.

3.4 Verification disclosed that the Board, as policy governing body, had issued policies and procedures in the handling and recovery of delinquent accounts by disconnecting the water services of inactive concessionaires account.

3.5 In CY 2018 audit, the Management launched a program called “Baliksaya” to enjoin permanently disconnected accounts to pay their unsettled obligations. Under the above mentioned program, the Management sent two sets of letter notices, as follows:

- | | |
|------------------------|--|
| 1 st Letter | One year after the account was permanently disconnected, the concessionaires were informed of their unsettled obligations; and |
| 2 nd Letter | The concessionaires were given three months from the date of the 1 st letter to settle their unpaid account. Otherwise, the 2 nd letter served as the final warning to settle their outstanding obligations. |

3.6 Moreover, the District issues demand letter three months after the 2nd letter or final warning stating that Management will proceed to *Barangayan* if settlement of obligation has not been made and subsequently file a court case to those accounts with huge outstanding balance and without any settlement. The concessionaires who do not have the capacity but are willing to settle their unpaid accounts are allowed to pay in installment basis with 30 per cent down payment and the balance in installment up to one year.

3.7 As of January 2019, 14 out of 503 delinquent concessionaires with the total amount due of ₱97,471.17, responded by paying their arrearages and requested for reconnection. The Management also found out that 63 concessionaires with inactive accounts and total outstanding obligation of ₱99,604.60 had existing active accounts which will be coordinated with the responsible concessionaires for collection.

3.8 However, in January 2019 the Management decided to temporarily stop the “Baliksaya” program because the Treasury Division prioritized the request for write-off of 384 accounts totaling ₱582,698.55 which was already endorsed to the General Manager for approval of the BOD on December 16, 2019.

b. *Uncollected active accounts of the Municipality of Baliwag – ₱6,142,590.57*

3.9 The former Department Manager of Commercial mentioned that the Municipality had transferred to the District the waterworks facilities costing ₱3,420,845.00 on April 17, 1989, which were managed, operated by and under the control of the latter as required under Section 6 of PD No. 198 which states that *to form a district, the legislative body of any city, municipality or province shall enact a resolution containing the following:*

xxx

- (c) *a statement completely transferring any and all waterworks and/or sewerage facilities managed, operated by or under the control of such city, municipality or province to such district upon the filing*

of resolution forming the district. (As amended by Sec. 2, PD 768; Sec. 1, PD 1479)

3.10 As per verbal agreement, the properties transferred to the District by the Municipality which were taken up under the Due to LGUs account will be offset against the water consumed by the Municipality.

3.11 The District had already negotiated with the Municipality based on the letter dated April 04, 2018 of the latter requesting to discuss the arrangement on the LGU's "in lieu shares" to the District. Inquiry with the former Senior Accounting Processor B disclosed that the Municipality was pursuing to offset the value of the properties transferred against their unpaid water bill.

3.12 However, the letter of the General Manager dated February 01, 2019, requested the Municipality to at least update the water bill payments starting January 2019, so as not to increase the unsettled balance that could affect the District's collection efficiency.

3.13 On March 18, 2019, The Municipal Administrator sent a letter to the General Manager requesting the District for the condonation of the penalties charged against the Municipality including future penalties to be incurred because of stringent accounting rules in the processing of disbursement vouchers.

3.14 The OIC – Department Manager Finance replied through the Municipal Accountant waiving the penalties of the nine LGU accounts with the District as per approved Board Resolution No. 22 Series of 2019 dated March 19, 2019.

3.15 Verification revealed that starting April 2019, the current accounts/billings of the Municipality were regularly collected by the District, however, the bulk of the account in the total amount of ₱6,142,590.57 or 99.46 per cent remained uncollected for more than one year. The aging of this account is as follows:

Age of Due from LGUs	Amount
1-30 days	₱ 33,389.56
31-60 days	39.19
More than 1 year	6,142,590.57
Total	₱6,176,019.32

3.16 The Office of the Sangguniang Bayan furnished the District a copy of the approved Kapasiyahan Blg. 66 series of 2019 dated October 28, 2019 authorizing the Municipal Mayor to sign a memorandum of agreement relative to the "in lieu shares" of three per cent of gross receipts yearly until such time that the District has paid the assessed value of the waterworks facilities transferred to the District.

3.17 On January 21, 2020, the Audit Team sent a confirmation letter to the Audit Team Leader of the Municipality requesting for the confirmation of the balance of the

receivable from the Municipality. As of audit date, no reply was received from the Municipality.

3.18 Section 64 of the Government Accounting and Auditing Manual states that *Quarterly, each agency accounting unit shall prepare a statement scheduling overdue accounts receivable. The agency head, or his authorized representative, shall review and sign this statement as an indication that he has examined the list of overdue accounts and has instituted, or will institute action for their collection.* (Underscoring ours)

3.19 Because of the absence of effective collection policy and on-going negotiations with the Municipality for possible offsetting of the unpaid water bill against transferred waterworks facilities, the inactive AR and active accounts from the Municipality aged more than one year have accumulated to an alarming level of ₱4,702,616.80 and ₱6,142,590.57, respectively, as of December 31, 2019, thus, depriving the District of the opportunity cost on the funds tied up to these receivables.

3.20 We recommended and the General Manager agreed to instruct the Division Manager – Customer Accounts and the OIC – Department Manager Finance to (a) send demand letters to verify the existence of the concessionaires with inactive accounts in their indicated addresses; (b) strengthen efforts to collect the inactive accounts receivables including those with existing accounts and take appropriate legal action, if necessary; (c) fast track the preparation of the request for write-off of dormant accounts from the Commission on Audit, after all measures to collect proved futile pursuant to COA Circular No. 2016-005 dated December 19, 2016; and (d) coordinate/discuss constantly with the incumbent Municipal Mayor the legal processes on the possible offsetting of the value of the properties transferred as in lieu share to the District for the unpaid water bill; otherwise, exert utmost efforts to collect the unpaid active accounts totaling ₱6,142,590.57.

Failure to develop policies, prepare plans and display information on disasters

4. The District did not develop policies, prepare plans and display information on disasters contrary to Section 4, Rule 1 of the General Provisions of the Implementing Rules and Regulations of RA No. 10121. As a result, the awareness/consciousness and understanding of disasters by its personnel and concessionaires were not promoted.

4.1 The District is the owner of a Three-Storey Main building and a Four Storey Extension building located in Col. Toma Cruz St., Barangay Poblacion, Baliwag, Bulacan with an area of approximately 2,492.00 square meters. The said buildings are being used by different departments including the commercial department wherein most of the concessionaires paid their monthly bills.

4.2 The Audit Team observed that only the following information was posted on respective areas of the building:

1. Citizens Charter;
2. Quality Policy and Certificate of Conformance;
3. Organizational Chart and Water Distribution Layout Index Map; and
4. Other information or signage on: a) No Noon Break; b) Bawal Manigarilyo; c) Bawal ang Fixer; and d) Red Tape, Bayan-Talo

4.3 Interview with the Officer in Charge – Building and Grounds Division regarding the compliance of the District with the requirements of the National Disaster Risk Reduction and Management Plan (NDRRMP) for 2011 to 2028, disclosed that he attended a seminar on “Disaster Preparedness and First Aid Training and Seminar” conducted by Baliwag Municipal Disaster Risk Reduction and Management Office on February 2, 2018. However, the preparation of the policies and plans including complete display of information on disaster are still in process.

4.4 Republic Act No. 10121, otherwise known as “An act strengthening the Philippine Disaster Risk Reduction and Management System” was enacted by the Senate and House of Representative of the Philippines on July 27, 2009. It provided for the national disaster risk reduction and management frame work and institutionalized the national disaster risk reduction and management plan, appropriation of funds and for other purposes.

4.5 Section 4, Rule 1 of the General Provisions of the Implementing Rules and Regulations of this Act provides for the development of policies, plans and the implementation of actions and measures pertaining to all aspects of disaster risk reduction and management, including good governance, risk assessment and early warning, knowledge building and awareness raising, reducing underlying risk factors, and preparedness for effective response and early recovery. These apply to all levels of government, civil societies, private sections and all the DRM stakeholders.

4.6 The National Disaster Coordinating Council (NDCC) identified as one of the priorities in the National Disaster Risk Reduction and Management Plan (NDRRMP) 2011 to 2028 is *to establish and strengthen capacities of communities to anticipate, cope and recover from the negative impacts of emergency occurrences and disasters*. This can be achieved by increasing the level of awareness of the community to the threats and impacts of all hazards, risks and vulnerabilities.

4.7 Due to delayed compliance with the requirements of NDRRMP for 2011 to 2028 such as preparation of the policies, plan and complete display of information on disasters relative to various calamities such as earthquake, typhoon, flashflood, fire and the like, the District’s customers/concessionaires and its officials and employees’ consciousness and understanding of disasters were not promoted, thus, they may not be ready in the event of disasters.

4.8 We recommended and the General Manager thru the OIC-Buildings and Grounds Division agreed to (a) prepare policies, plans and display complete information materials like NDCC alert tips charts at customer's waiting areas and office bulletin boards; and (b) conduct briefings/alert drills on calamities to assess the preparedness of its personnel in the event of calamities.

Non-compliance with BIR Regulations

5. *Analysis of the Due to BIR account revealed over or under remittance of monthly taxes withheld ranging from a negative amount of ₱678,026.53 to ₱399,882.13 contrary to Philippine Accounting Standards (PAS) 1 – Presentation of Financial Statements and Conceptual Framework for Financial Reporting.*

5.1 Audit of the Due to BIR account relative to the amount of taxes withheld and remitted for CY 2019 revealed that the District substantially complied with Revenue Memorandum Circular No. 23-2007 dated March 20, 2007 which requires that all government agencies as tax withholding agents remit all taxes withheld by them on or before the 10th day of the succeeding month.

5.2 The details of the withholding of applicable taxes for each month from the employees' compensation, franchise taxes and payments of goods and services and the remittance thereof are shown below.

Year/ Month	Beginning Balance	Amount Withheld	Amount Remitted	Ending Balance	Under/(Over) Remittance
December 2019		₱998,114.82	₱625,701.15	₱1,538,806.98	
January	1,538,806.98	1,142,973.88	1,584,861.83	1,096,919.03	(586,747.01)
February	1,096,919.03	917,571.63	743,091.75	1,271,398.91	399,882.13
March	1,271,398.91	1,106,834.78	619,933.93	1,758,299.76	297,637.70
April	1,758,299.76	988,728.37	1,771,112.56	975,915.57	(664,277.78)
May	975,915.57	1,084,929.50	662,578.66	1,398,266.41	326,149.71
June	1,398,266.41	999,942.45	733,052.68	1,665,156.18	351,876.82
July	1,665,156.18	1,095,882.88	1,677,968.98	1,083,070.08	(678,026.53)
August	1,083,070.08	1,182,687.17	747,067.32	1,518,689.93	348,815.56
September	1,518,689.93	984,899.23	861,205.40	1,642,383.76	321,481.77
October	1,642,383.76	1,048,203.27	1,655,196.56	1,035,390.47	(670,297.33)
November	1,035,390.47	1,264,105.06	716,024.05	1,583,471.48	332,179.22
December	1,583,471.48	1,098,134.76	938,913.15	1,742,693.09	325,191.91
Total		₱12,914,892.98	₱12,711,006.87		

* The Over/under Remittance is the previous amount withheld less the current amount remitted.

5.3 Due to lack of review, there were over or under remittances ranging from a negative amount of ₱678,026.53 to ₱399,882.13.

5.4 PAS 1 – Presentation of Financial Statements states that *the objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.* Moreover, under the Conceptual Framework for financial reporting for information to be useful it must both be relevant and provide a faithful representation of what it purports to represent. A faithful representation is, to the maximum extent possible, complete, neutral and free from error. (underscoring ours)

5.5 The Senior Accounting Processor B mentioned that the over or under remittances were due to the following:

- The District inadvertently remitted the taxes withheld on cancelled check/disbursement voucher
- Over deduction of taxes to suppliers because of an error in determining the taxable amount;
- Franchise taxes withheld were remitted after every quarter; and
- Advance remittance of taxes withheld for the year-end bonus of employees.

5.6 We recommended and the General Manager through the OIC – Department Manager Finance agreed to (a) continue to be compliant with the BIR regulations on the withholding and remittance of the appropriate taxes within the prescribed period; and (b) require the Senior Accounting Processor B to be more cautious in recording the taxes withheld and remitted to avoid errors that may result in over or under remittances of taxes withheld.

Non-compliance with GSIS Requirements

6. *Analysis of the Due to GSIS account revealed over or under remittance of monthly contributions ranging from a negative amount of ₱39,861.67 to ₱30,725.59 contrary to Philippine Accounting Standards (PAS) 1 – Presentation of Financial Statements and Conceptual Framework for Financial Reporting.*

6.1 Audit of the Due to GSIS account showed that the District withheld employees' share/loans and these were remitted including the employer's share to the GSIS. Based on the general ledger, hereunder is the summary of the GSIS employees' and employer's contributions withheld as well as the corresponding remittances for CY 2019:

Particulars	Amount
Beginning Balance, January 1	₱ 1,010,003.94
Add: Amount Withheld from employees and total employer's share for the year	13,504,339.21
Total	14,514,343.15
Less: Remittances from January to December	13,378,689.08
Unremitted as of December 31	₱ 1,135,654.07

6.2 The District deducted the mandatory contributions for CY 2019 representing employees' share of 9% and employer's share of 12% of the basic monthly salaries of its officials and employees as set forth under Section 5 of RA No. 8291, the Government Service Insurance System (GSIS) Act of 1997 which states that *the mandatory monthly contribution of each employee and employer is 9% and 12%, respectively, of the basic monthly compensation.*

6.3 The contributions were relatively remitted pursuant to Section 6 (b) of the same Act which states that *Each employer shall remit directly to the GSIS the employees' and employer's contributions within the first ten (10) days of the calendar month following the month to which the contributions apply, viz:*

Month/ Year	Beginning Balance (A)	Amount Withheld (B)	Amount Remitted (C)	Ending Balance (E)=A+B-C	Under (Over) Remittance*
December 2018		₱1,012,719.20	₱940,814.21	₱1,010,003.94	
CY 2019					
January	1,010,003.94	1,046,551.22	1,020,052.79	1,036,502.37	(7,333.59)
February	1,036,502.37	1,064,747.52	1,068,343.09	1,032,906.80	(21,791.87)
March	1,032,906.80	1,107,064.17	1,094,222.07	1,045,748.90	(29,474.55)
April	1,045,748.90	1,109,395.40	1,076,338.58	1,078,805.72	30,725.59
May	1,078,805.72	1,118,553.04	1,079,524.84	1,117,833.92	29,870.56
June	1,117,833.92	1,122,468.40	1,118,977.65	1,121,324.67	(424.61)
July	1,121,324.67	1,159,549.33	1,123,889.98	1,156,984.02	(1,421.58)
August	1,156,984.02	1,163,030.28	1,199,411.00	1,120,603.30	(39,861.67)
September	1,120,603.30	1,166,205.28	1,138,691.30	1,148,117.28	24,338.98
October	1,148,117.28	1,156,935.33	1,154,469.37	1,150,583.24	11,735.91
November	1,150,583.24	1,148,118.07	1,155,235.57	1,143,465.74	1,699.76
December	1,143,465.74	1,141,721.17	1,149,532.84	1,135,654.07	(1,414.77)
Total		₱13,504,339.21	₱13,378,689.08		

* The Over/Under Remittance is the previous amount withheld less the current amount remitted.

6.4 Based on the above table, it showed there were over or under remittances ranging from a negative amount of ₱39,861.67 to ₱30,725.59.

6.5 PAS 1 – Presentation of Financial Statements states that *the objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.* Moreover, under the Conceptual Framework for financial reporting for information to be useful it must both be relevant and provide a faithful representation of what it purports to represent. A faithful representation is, to the maximum extent possible, complete, neutral and free from error. (underscoring ours)

6.6 According to the Senior Accounting Processor B, the negative or positive differences in Due to GSIS account were due to the following:

- The District still deducted monthly amortization of Education Assistance Loan even if the loan was already paid in full by the employee.
- The District still deducted monthly amortization of loans but the loans were already fully paid per record of the GSIS as stated by the Senior Accounting Processor B.
- When the date of resignation or appointment of promotion of employees falls on weekends or holiday, the District computed the contributions based on the whole monthly salary but the GSIS prorated based on the actual number of days remaining only.

6.7 We recommended and the General Manager through the OIC – Department Manager Finance agreed to (a) remit fully and continuously on time the GSIS contributions in compliance with the provisions of Sections 5 and 6 of RA No. 8291; and (b) require the Senior Accounting Processor B to be more cautious in recording the transactions to avoid errors that could result in the over or under remittances of contributions withheld in compliance with PAS 1 and Conceptual Framework for Financial Reporting.

GAD Compliance

7. The Gender and Development (GAD) Projects, Programs and Activities (PPAs) for CY 2019 amounting to ₱12,100,000.00 constituted 5.10 per cent of the total budget of the District pursuant to Section 32 of the General Appropriations Act (GAA) for FY 2019.

7.1 The District's GAD Focal Point System prepared the GAD Plan and Budget (GPB) for CY 2019 which was rightfully submitted on January 29, 2018 to the Local Water Utilities Administration (LWUA) while the GAD Accomplishment Report for CY 2019 is yet to be submitted within this year in accordance with Section 4 of PCW Memorandum Circular No. 2016-06 dated October 10, 2016 which states that, *All LWD GPBs and GAD ARs shall be submitted to the LWUA.*

7.2 The District allocated/attributed the amount of ₱12,100,000.00 or 5.10 per cent of the District's total annual budget of ₱237,249,729.49 for CY 2019.

7.3 Hereunder is a table summarizing the computation for the GPB for CY 2019:

Nature	Amount
Personnel Services (PS)	₱ 96,509,642.74
Maintenance and Other Operating Expenses (MOOE)	95,520,595.27
Capital Outlay (CO)	36,481,574.99
Financial Expenses (FE)	8,737,916.49
Total	₱237,249,729.49
Amount to be budgeted - at least 5% of the District's Budget	₱ 11,862,486.47
Amount Budgeted for GAD – 5% of the District's Budget	₱ 12,100,000.00

7.4 Section 32 of GAA for FY 2019 states that:

The GAD Plan shall be integrated in the regular activities of the agencies, which shall be at least five percent (5%) of their respective budgets. For this purpose, activities currently being undertaken by agencies which relate to GAD or those that contribute to poverty alleviation, economic empowerment especially of marginalized women, protection, promotion and fulfillment of women's human rights, and practice of gender-responsive governance are considered sufficient with said requirement.

7.5 The corresponding Accomplishment Report for CY 2019 showed that the Programs, Projects and Activities (PPAs) implemented amounted to ₱10,804,480.47 or 89.29% of the total District's GAD budget of ₱12,100,000.00. According to the Department Manager – Finance, the balance of ₱1,295,519.53 forms part of the District's savings in CY 2019.

7.6 We recommended and the General Manager thru the Chairperson, GAD Focal Point System agreed to (a) continue to set aside or attribute at least 5% of the total budget for GAD which shall be integrated in its PPAs; and (b) implement fully all GAD PPAs identified by the District for CY 2020 and onwards.

Non-revenue water within the acceptable limit

8. The District registered an average rate of 14.70 per cent of Non-Revenue Water (NRW) in CY 2019 which was within the maximum acceptable 30 per cent NRW set by the Local Water Utilities Administration (LWUA) under Memorandum Circular (MC) No. 011-18 dated June 1, 2018.

8.1 Review of the operations of the District showed an average NRW rate of 14.70 per cent for CY 2019 which was within the acceptable 30 per cent NRW set by the LWUA. The details are shown below.

Month	Water Produced (in cu. m.) A	Water Billed (in cu. m.) B	Difference (in cu. m.) (A)-(B)=C	% of NRW/Loss (C)/(A)	Peso equivalent of NRW/Loss (C/10)*174.00
January	681,619	604,813	76,806	11.27%	₱1,336,424.40
February	678,970	582,149	96,821	14.26%	1,684,685.40
March	616,721	554,715	62,006	10.05%	1,078,904.40
April	697,563	624,838	72,725	10.43%	1,265,415.00
May	687,202	623,390	63,812	9.29%	1,110,328.80
June	729,124	643,204	85,920	11.78%	1,495,008.00
July	726,373	624,593	101,780	14.01%	1,770,972.00
August	747,210	630,994	116,216	15.55%	2,022,158.40
September	761,090	632,754	128,336	16.86%	2,233,046.40
October	744,577	599,499	145,078	19.48%	2,524,357.20

Month	Water Produced (in cu. m.) A	Water Billed (in cu. m.) B	Difference (in cu. m.) (A)-(B)=C	% of NRW/Loss (C)/(A)	Peso equivalent of NRW/Loss (C/10)*174.00
November	770,185	616,272	153,913	19.98%	2,678,086.20
December	745,997	587,314	158,683	21.27%	2,761,084.20
Total	8,586,631	7,324,535	1,262,096	14.70%	₱21,960,470.40

8.2 In order to maintain performance levels required for various concerns; such as: incentives, credit classification, re-categorization, loan application, Board per diem adjustments and other performance based concerns, the LWUA issued Memorandum Circular (MC) No. 011-18 dated June 1, 2018 increasing the NRW acceptable level rate of 20% to $\leq 30\%$.

8.3 Further, under LWUA Memorandum Circular No. 014-10 dated December 2, 2010, Water Districts (WDs) were enjoined to periodically conduct performance audit of water meters being used by customers to ensure their accuracy. Depending on the condition of operation, the water meter should be tested for accuracy after five years of utilization. Water meters showing errors of more than the following tolerance levels should be calibrated or replaced as follows:

From Maximum Flow to Transitional Flow $\pm 2\%$
From Minimum Flow to Transitional Flow $\pm 5\%$

In order to meet this requirement, all WDs were encouraged to allocate funds to establish their own water meter testing facility.

8.4 The OIC – Division Manager Water Production disclosed the following programs/strategies undertaken by the District to lessen the NRW in CY 2019:

- a. The District's pumping stations used Variable Frequency Drives (VFD) to set the desire water pressure and avoid major leak in the distribution line;
- b. Replaced mechanical flow meter by electro-magnetic flow meter;
- c. Conducted regular pump test to all pumping station to ensure that efficiency of pumps and motors are maintained;
- d. Scheduled regular air scouring to clean the mains and look for possible leaks and illegal connection;
- e. Immediate response to all reported leaks; and
- f. Conducted system pressure analysis using data logger to balance the water pressure at the whole distribution area.

8.5 Even if the average NRW was below the acceptable level of 30 per cent, the NRW rate of 14.70 per cent for CY 2019 was even higher by .48 per cent as compared to 14.22 per cent for CY 2018, therefore, Management should still be concerned on how to further minimize the NRW losses to ensure that whatever resources taken from nature are put to good use or properly conserved and that the corresponding billings are collected and used to improve the services and facilities of the District.

8.6 We commended the Management for maintaining an average rate of 14.70 per cent NRW for CY 2019 which was below the 30 per cent maximum acceptable NRW set by the LWUA. Likewise, we encouraged and the General Manager and OIC Division Manager – Water Production agreed to closely/rigorously monitor and to continuously undertake measures to further reduce its NRW.

Enforcement of Audit Suspensions, Disallowances and Charges

9. Prior years' audit disallowances issued for CYs 2012 to 2018 transactions totaled ₱26,166,736.87 with settlements made in the total amount of ₱550,000.00; leaving a balance of ₱25,616,736.87 as of December 31, 2019. There were disallowable disbursements amounting to ₱4,054,429.38 in the audit of CY 2019 transactions.

9.1 The Statement of Audit Suspensions, Disallowances and Charges as of December 31, 2019 amounted to ₱26,166,736.87 with audit settlement in the total amount of ₱550,000.00 as of CY 2019, thereby leaving an unsettled balance of ₱25,616,736.87. The details are as follows:

ND No./Date	Nature	Balance as of December 31, 2019	Remarks
CY 2012 Audit			
2013-101-001-BWD (2012)	Unauthorized rice allowance	₱0.00	The original audit disallowance totaled ₱550,000.00 which were fully settled as of June 28, 2019.
CYs 2013 - 2014 Audit			
2015-08-001-BWD (2013-2014) dated 8/4/15	Unauthorized and excessive anniversary bonus	3,082,518.13	In view of RO III Decision No. 2018-130 dated August 23, 2018 which denied the appeal for the lifting of NDs issued, the District filed a Petition for Review with the COA Commission Proper under COA CP Case No. 2018-1163 dated December 10, 2018. The District is still waiting for the decision of the Commission Proper as of audit date.
2015-08-002-BWD (2013-2014) dated 8/4/15	Excessive productivity incentive bonus	2,750,760.40	
2015-08-003-BWD (2013-2014) dated 8/4/15	Unauthorized rice allowance and Year End Financial Assistance	3,682,571.50	
2015-08-004-BWD (2013-2014) dated	Excessive Pag-IBIG Fund Employer's share	586,201.45	

ND No./Date	Nature	Balance as of December 31, 2019	Remarks
8/4/15			
2015-08-005-BWD (2013-2014) dated 8/4/15	Unauthorized Provident Fund	3,999,450.03	
2015-08-006-BWD (2013-2014) dated 8/4/15	Excessive Extra ordinary and Miscellaneous Expenses (EME)	204,400.00	
Sub-Total		14,305,901.51	
CY 2015 Audit			
2016-05-001-BWD (2015) dated 5/2/16	Unauthorized Rice Allowance	890,000.00	
2016-05-002-BWD (2015) dated 5/2/16	Unauthorized Anniversary Bonus	1,963,427.85	
2016-05-003-BWD (2015) dated 5/2/16	Excessive Employer's share in Pag-IBIG Fund Contribution	213,838.08	With Appeal Memorandum filed on November 3, 2016. The Management is still waiting for the decision of the COA Regional Office No. III as of audit date.
2016-05-004-BWD (2015) dated 5/2/16	Unauthorized Employer's share in Provident Fund Contribution	2,021,005.70	
2016-05-005-BWD (2015) dated 5/2/16	Excessive EME	98,063.33	
Sub-Total		5,186,334.96	
CY 2017 Audit			
2018-001-BWD (2017) dated 11/21/18	Excessive Representation and Transportation Allowance (RATA)	277,836.00	With Appeal Memorandum filed on June 10, 2019. The Management is still waiting for the decision of the COA Regional Office No. III as of audit date.
2018-002-BWD (17) dated 12/12/18	Unauthorized Employer's share in Provident Fund Contribution	2,075,303.50	
2018-005-BWD (17) dated 12/12/18	Unauthorized Rice Allowance	797,500.00	
Sub-Total		3,150,639.50	
CY 2018 Audit			
2019-001-BWD (18) dated 09/20/19	Excessive RATA	387,436.80	The NDs were received on October 03, 2019. Management will file an Appeal Memorandum to COA Regional Office No. III.
2019-002-BWD (18) dated 09/20/19	Unauthorized Employer's share in Provident Fund	1,777,824.10	

ND No./Date	Nature	Balance as of December 31, 2019	Remarks
	Contribution		
2019-003-BWD (18) dated 09/23/19	Unauthorized Rice Allowance	767,500.00	
2019-004-BWD (18) dated 10/02/19	Excessive Travelling Expenses	41,100.00	
Sub-Total		2,973,860.90	
TOTAL		₱25,616,736.87	

9.2 Section 7.1 of the Rules and Regulations on Settlement of Accounts (RRSA) provides among others that *the Head of Agency shall ensure that disallowances and charges are settled within the prescribed period, the requirement of transactions suspended in audit are complied with, and appropriate actions are taken on the deficiencies presented in the Audit Observations Memorandum.*

9.3 In the audit of CY 2019 transactions, the Audit Team disclosed disallowable disbursements amounting to ₱4,054,429.38 which were discussed thoroughly in the Audit Observation Memoranda (AOM), to wit:

Nature	AOM No.	Date	Amount
Excessive RATA	2020-01-BWD (19)	01/29/2020	₱ 84,952.80
Unauthorized health care services or benefits	2020-03-BWD (19)	01/29/2020	2,714,875.58
Unauthorized Employer's Share to the District's Employees Provident Fund Association, Inc.	2020-04-BWD (19)	01/29/2020	1,124,601.00
Unauthorized rice allowance	2020-10-BWD (19)	01/30/2020	130,000.00
Total			₱4,054,429.38

9.4 We recommended that the officials and employees determined liable cause the refund of the amount received covered by the Notices of Disallowance to be issued for CY 2019 audit or file an appeal within the period of six months after receipt thereof pursuant to Section 1, Rule V of the 2009 Revised Rules of Procedures of the Commission on Audit.

9.5 We also recommended that Management (a) file a Petition for Review within the remaining period of six months provided in Section 4, Rule V of the 2009 Revised Rules of Procedures of the COA for their Appeals that were denied by COA Regional Office No. III; and (b) comply strictly with laws, rules and regulations to avoid disallowances in the future transactions.

**PART III - STATUS OF IMPLEMENTATION OF
PRIOR YEAR'S UNIMPLEMENTED AUDIT RECOMMENDATIONS**

**PART III - STATUS OF IMPLEMENTATION OF PRIOR YEAR'S
UNIMPLEMENTED AUDIT RECOMMENDATIONS**

Of the 24 audit recommendations embodied in the CY 2018 Financial Audit Report, 16 were fully implemented and eight were partially implemented as detailed below:

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
<p>1. <i>The collectability of inactive accounts totaling ₱4,295,620.74 and receivables from the Municipality of Baliwag amounting to ₱6,142,590.57 was remote thus placing these impaired receivables to an alarming level contrary to Section 64 of the Government Accounting and Auditing Manual, Volume I.</i></p> <p>We recommended that the General Manager instruct the Division Manager – Finance and Commercial to –</p> <p>(a) continuously send confirmation/demand letters to the concessionaires;</p> <p>(b) monitor the status of trade accounts and improve collection strategies on delinquent accounts which may include appropriate legal action, if necessary;</p> <p>(c) determine the possibility of collecting the inactive accounts receivables</p>	<p>FAR 2018 Obs. No. 1</p>	<p>The Management already prepared a request for write-off</p>	<p>Partially Implemented</p> <p>Reiterated in Observation No. 3 of CY 2019 FAR.</p> <p>Partially Implemented</p> <p>Reiterated in Observation No. 3 of CY 2019 FAR.</p> <p>Partially Implemented</p> <p>Reiterated in</p>

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
<p>which are more than ten years or request authority from the Commission on Audit for the write-off of dormant accounts, after all measures to collect have been futile and which can no longer be supported by the required documents pursuant to COA Circular No. 2016-005 dated December 19, 2016; and</p> <p>(d) make a full representation with the incumbent Municipal Mayor regarding the legal processes on the offsetting of the value of the properties given totaling ₱3,420,845.00 as in lieu share to the District for the unpaid water bill; otherwise, exert utmost efforts to collect the unpaid active accounts totaling ₱6,142,590.57.</p>		<p>on December 16, 2019 for review of General Manager.</p> <p>The Management sent a letter to the Municipality of Baliwag (MB) dated February 1, 2019 requesting to at least update the water bill payments starting January 2019. For receivables prior to 2019, the Office of the Sangguniang Bayan furnished the District a copy of the approved Kapasiyahan Blg. 66 series of 2019 dated October 28, 2019 authorizing the Municipal Mayor to sign a memorandum of agreement relative to the in lieu shares of three per cent of gross receipts yearly until such time that the District paid the assessed value of the</p>	<p>Observation No. 3 of CY 2019 FAR.</p> <p>Partially Implemented</p> <p>Reiterated in Observation No. 3 of CY 2019 FAR.</p>

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
		waterworks facilities transferred to the District. The said in lieu shares will be used to offset for the unpaid billings of the Municipality in prior years.	
<p>2. <i>The District granted cash advances in excess of the actual need by ₱626,358.47 or 24.76% and the accountable officers incurred delays in the liquidation thereof ranging from two to 93 days in violation of COA Circular No. 97-002 dated February 10, 1997.</i></p> <p>We recommended that the General Manager –</p> <p>(a) closely monitor the granting, utilization and liquidation of cash advances; and</p> <p>(b) require the Department Manager - Finance to see to it that</p> <p>(i) all cash advances made by officials and employees be commensurate to the actual need and that they should be reported or immediately liquidated as soon as the purpose for which it was granted has</p>	<p>FAR 2018 Obs. No. 2</p>	<p>The Department Manager - Finance adhered to COA's recommendation to strictly monitor the liquidation of cash advances (CA) within the prescribed period and ensured that no CA were granted unless the previous CA were liquidated.</p>	<p>Fully Implemented</p> <p>Partially Implemented</p> <p>Per validation, several cash advances were still granted in excess of the actual need and the Management was advised to fully</p>

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
<p>the Procurement Head and BAC to post all RFQs with Approved Budget for the Contracts of more than ₱50,000.00 in the PhilGEPS' website for a period of seven calendar days in compliance with the RIRR of RA No. 9184.</p> <p>Likewise, we recommended that the General Manager see to it that all necessary documents are attached to the Disbursement Vouchers and monitor closely the compliance with the requirements of the procurement rules and regulations to prevent the recurrence of similar conditions in the future.</p>		<p>recommendation of COA to post all RFQs with ABCs of P50,000 and above in the PhilGEPS' website for seven (7) days in compliance with RA 9184.</p> <p>The Management ensured that all necessary documents were complete and attached to the Disbursement Vouchers.</p>	Fully Implemented
<p>4. <i>Traveling expenses totaling ₱88,450.00 claimed by officers and employees in CY 2018 were not in accordance with Section 4 of Executive Order (EO) No. 298 dated March 23, 2004 while four officials attended conferences/trainings abroad even without approved authority in violation of LWUA Memorandum Circular No. 010-10 and LWUA Resolution 182 series of 2010.</i></p>	FAR 2018 Obs. No. 4		

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
<p>We recommended that Management direct the concerned officials and employees to strictly observe the provisions of EO No. 298, LWUA Memorandum Circular No. 010-10 and LWUA Resolution 182 series of 2010.</p>		<p>The District currently applies the new travel rates based on EO No. 77 dated March 15, 2019 which amended EO 298 dated March 23, 2004. In addition, all officials and employees who will be on official travel abroad are required to secure permit from LWUA.</p>	Fully Implemented
<p>5. <i>Ten expense accounts aggregating to ₱49,374,000.03 exceeded their approved 2018 Corporate Operating Budget of ₱36,461,977.83 contrary to the provisions of Sections 4(1) and 4(8) of PD No. 1445.</i></p> <p>We recommended that Management –</p> <p>(a) take into consideration the availability of budget before incurring expenditures in conformity with Sections 4(1) and 4(8) of PD No. 1445;</p> <p>(b) implement cost-saving measures and stricter budgetary controls to keep expenses within the approved limit;</p>	<p>FAR 2018 Obs. No. 5</p>	<p>The Management strictly monitored the expenses based on the approved budget. However, for expenses which exceeded the budget necessary in the operations, the district requested for re-alignment of budget instead of</p>	<p>Fully Implemented</p> <p>Fully Implemented</p>

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
<p>(c) formulate a more realistic budget, taking into consideration the projected earnings and the needed programs and projects to improve its operations; and</p> <p>(d) prepare a supplemental budget or augment funds/realign savings in case of budget overruns in accordance with Section 3.3 of DBM CC No. 20 dated April 27, 2005.</p>		supplemental budget.	Fully Implemented Fully Implemented
<p>6. <i>Analysis of the Due to BIR account revealed over or under remittance of monthly taxes withheld ranging from a negative amount of ₱593,174.54 to ₱327,230.30 contrary to Philippine Accounting Standards (PAS) 1 – Presentation of Financial Statements and Conceptual Framework for Financial Reporting.</i></p> <p>We recommended that the General Manager through the Division Manager – General Accounting to –</p> <p>(a) continue to be compliant with the BIR regulations on the withholding and remittance of the appropriate taxes within the prescribed period;</p>	FAR 2018 Obs. No. 6	The Division Manager – General Accounting continuously monitored the BIR remittances in	Fully Implemented

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
<p>and</p> <p>(b) require the Senior Corporate Budget Analyst to be more cautious in recording the taxes withheld and remitted to avoid errors that may result in the under or over remittances of taxes withheld in compliance with PAS 1 and Conceptual Framework for Financial Reporting.</p>		<p>compliance with BIR regulations.</p>	<p>Partially Implemented</p> <p>Reiterated in Observation No. 5 of CY 2019 FAR.</p>
<p>7. <i>Analysis of the Due to GSIS account revealed over or under remittance of monthly contributions ranging from a negative amount of ₱32,678.82 to ₱38,448.37 contrary to Philippine Accounting Standards (PAS) 1 – Presentation of Financial Statements and Conceptual Framework for Financial Reporting.</i></p> <p>We recommended that the General Manager through the Division Manager – General Accounting to –</p> <p>(a) fully and continuously remit on time the GSIS contributions in compliance with the provisions of Sections 5 and 6 of RA No. 8291; and</p>	<p>FAR 2018 Obs. No. 7</p>	<p>The Management continuously monitored the remittance of GSIS premiums.</p>	<p>Fully Implemented</p>

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
<p>(b) require the Corporate Budget Assistant to be more cautious in recording the transactions to avoid errors that could result in the under or over remittances of contributions withheld in compliance with PAS 1 and Conceptual Framework for Financial Reporting.</p>			<p>Partially Implemented</p> <p>Reiterated in Observation No. 6 of CY 2019 FAR.</p>
<p>8. <i>The District attributed to Gender and Development (GAD) for CY 2018 the amount of ₱14,230,000.00 equivalent to 7.06% of the total budget of ₱201.565 Million pursuant to Item Nos. 2.3 and 6 of the PCW-NEDA-DBM Joint Circular No. 2012-01.</i></p> <p>We recommended that Management –</p> <p>(a) continue to set aside or attribute at least 5% of the total budget for GAD which shall be integrated in its PPAs; and</p> <p>(b) implement all GAD PPAs identified by the District for CY 2019 and onwards.</p>	<p>FAR 2018 Obs. No. 8</p>	<p>The Management continued to attribute at least 5% of its budget to support gender and development programs, activities and projects.</p> <p>The District, through its GAD Focal Point System continued to spearhead in mainstreaming gender perspective</p>	<p>Fully Implemented</p> <p>Fully Implemented</p>

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
		in the department policies, plans and programs to be incorporated in its annual planning.	
<p>9. The disallowances issued for CYs 2012-2015 transactions totaled ₱19,497,064.47 while disallowances issued for CY 2017 transactions totaled ₱3,150,639.50 or a total amount of ₱22,647,903.97 as of December 31, 2018. There were disallowable disbursements amounting to ₱2,973,860.90 in the audit of transactions for CY 2018.</p> <p>We recommended that Management require the officials and employees determined liable cause the refund of the amount received covered by the Notices of Disallowance to be issued for CY 2018 audit or file an appeal within the period of six months after receipt thereof pursuant to Section 1, Rule V of the 2009 Revised Rules of Procedures of the Commission on Audit.</p> <p>We also recommended that Management –</p> <p>(a) file a Petition for Review within the remaining</p>	<p>FAR 2018 Obs. No. 10</p>	<p>The District already filed an appeals for the disallowances to proper agencies. In addition, the District already stopped granting cited disallowances.</p>	<p>Fully Implemented</p> <p>Fully Implemented</p>

Audit Observations and Recommendations	Ref.	Management's Action	Status of Implementation/ Reason for Partial/ Non Implementation
<p>period of six months provided in Section 4, Rule V of the 2009 Revised Rules of Procedures of the COA for their Appeals that were denied by COA Regional Office No. III; and</p> <p>(b) comply strictly with laws, rules and regulations to avoid disallowances in the future transactions.</p>			<p>Partially Implemented</p> <p>Reiterated in Observation No. 9 of CY 2019 FAR.</p>

BALIWAG WATER DISTRICT