

EXECUTIVE SUMMARY

A. Introduction

The Sta. Lucia Water District started operation as a local water district in 1988. The water supply systems located at the Poblacion and in Barangay Luba were constructed by the Department of Public Works and Highways and the Rural Water Development Council. In July 15, 1988, Conditional Certificate of Conformance (CCC) No. 349 was awarded by the Local Water Utilities Administration (LWUA) to the District which enabled it to the rights and privileges authorized under PD No. 198.

The Board of Directors is the policy making body of the District. The overall management and supervision is vested on General Manager Mr. Alejandro E. Fausto. As of December 31, 2018, the manpower complement of the District consisted of five regular employees and two job orders.

B. Financial Highlights

Accounts	2018	2017	Increase/(Decrease)	
			Amount	%
Total Income	6,631,112.99	3,599,907.40	3,031,205.59	84.20%
Expenses	4,277,528.68	3,981,311.00	296,217.68	07.44%
Comprehensive Loss	2,353,584.31	(381,403.60)	2,734,987.91	(717.08%)
Assets	13,877,519.86	11,260,287.58	2,617,232.28	23.24%
Liabilities	11,448,291.82	11,187,081.87	261,209.95	2.32%
Equity	2,429,228.04	73,205.71	2,356,022.33	3218.36%

2018		2017	
Budget	Expenditure	Budget	Expenditure
5,156,505.00	5,116,190.20	4,756,534.78	4,427,636.58

C. Operational Highlights

Programs/Projects/Activities	Target	Actual	Variance
Service Connections	850	831	19
Water Sales	4,444,500.00	3,558,673.95	885,826.05
Collection from Water Bills	4,000,050.00	3,614,562.88	385,487.12

The District incurred Non-Revenue Water of 20.70% which is within the range allowed under Local Water Utilities Administration Memorandum Circular 011.018 dated June 1, 2018.

D. Scope of Audit and Methodology

A financial and compliance audit was conducted on the accounts and operations of the Sta. Lucia Water District, Sta. Lucia, Ilocos Sur for the year ended December 31, 2018. The audit consisted of review of operating procedures, inspection of programs and projects, interview with concerned officials and employees, verification, reconciliation and analysis of accounts and such other procedures deemed necessary.

E. State Auditor's Opinion on the Financial Statement

We rendered a qualified opinion on the presentation of the Financial Statements because the General Ledger (GL) balance of the Accounts Receivable for CY 2018 as compared to the subsidiary ledger balances and Aging Schedule showed a discrepancy of ₱766,071.78 which cast doubt as to the accuracy and reliability of the Accounts Receivable and Allowance for Impairment Loss accounts. In addition, Accounts Payable amounting to ₱331,471.24 were not supported with complete documentation to prove their validity, propriety and existence. Moreover, errors in the computation of the Final Value Added Tax and Expanded Withholding Tax for the first partial payment of the drilling of two exploratory/production wells project of the District and in the recording of the advance payment, retention money and first partial payment affected the fair presentation of various Asset and Liability accounts. Furthermore, a portion of a lot costing ₱60,000.00 was recognized under the account Construction in Progress – Infrastructure Asset instead of Land account, contrary to COA Circular No. 2015-010 dated December 1, 2015, thus, affecting the fair presentation of the said accounts in the Financial Statements as of December 31, 2018. Also, the said lot was not yet titled under the name of the District, contrary to Sections 39(2) and 58 of P.D. 1445, thus, rendered the ownership doubtful. Also, the accuracy and existence of the “Other Assets” account amounting to ₱185,777.47, as of December 31, 2018, cannot be ascertained due to absence of ledger cards and non-conduct of physical count, contrary to Section 58 of P.D. 1445 and Section 124 of the Manual on the New Government Accounting System (MNGAS), Volume I.

F. Significant Audit Observations and Recommendations

We are pleased to note that out of the total taxes withheld from payment to contractors and suppliers, employee's compensation and BOD's per diem in the amount of ₱142,919.33, the amount of ₱77,066.62 was remitted to the Bureau of Internal Revenue as of December 31, 2018. The balance was remitted in January 2019.

Some transactions which need to be corrected or improved are enumerated in the herein audit observations with their corresponding recommendations, as follows:

1. The General Ledger (GL) balance of the Accounts Receivable for CY 2018 as compared to the subsidiary ledger balances and Aging Schedule showed a discrepancy of ₱766,071.78, which is not in consonance with Section 12 of NGAS Volume II, casting doubt as to the accuracy and reliability of the Accounts Receivable

and Allowance for Impairment Loss resulting to the District's Financial Statements to be not compliant with the fundamental characteristics of useful information as prescribed in Chapter 3 of the Philippine Financial Reporting Standards (PFRS).

We recommended that management:

- a) Instruct the Accounting Processor to be more prudent in the review of postings of collections and reconciliation of list of concessionaires with that of Subsidiary Ledgers; and
 - b) Require the Acting Cashier and Accounting Processor to have proper coordination as regards the recording of related transactions pertaining to Accounts Receivable so that discrepancies, if any, would be immediately adjusted and/or corrected.
2. Accounts Payable amounting to ₱331,471.24 were not supported with complete documentation to prove their validity, propriety and existence, which is not in line with pertinent provisions of laws, rules and regulations, thus, overstating the recorded accounts payable and corresponding expense accounts and understating equity by the same amount.

We recommended that management:

- a) Set-up and/or record Accounts payable with valid disbursement vouchers and complete supporting documents in adherence to Section 46 of Presidential Decree No. 1177 and Section 4(6) of Presidential Decree No. 1445; and
 - b) Revisit the existing process of procurement of the District starting from planning, budgeting and accounting and design an effective monitoring system with the objective of reflecting the true amount of Accounts Payable duly supported by proper and necessary documents.
3. Errors in the computation of the Final Value Added Tax and Expanded Withholding Tax for the first partial payment of the drilling of two exploratory/production wells project of the District and in the recording of the advance payment, retention money and first partial payment affected the fair presentation of various Asset and Liability accounts in the Statement of Financial Position as of December 31, 2018.

We recommended that management:

- a) Direct the Accounting Processor to observe the proper use of account titles under the Revised Chart of Accounts for Government Corporations pursuant to COA Circular No. 2015-010 dated December 1, 2015;
- b) Require the Accounting Processor to adjust and/or correct the journal entries made with respect to the transactions and submit the necessary journal entry voucher for verification; and

- c) Instruct the Accounting Processor to ensure that the taxes withheld are in consonance with Revenue Memorandum Circular No. 23-2007 dated March 20, 2007.

Other Audit Observations and Recommendations are discussed in detail in Part II of this report.

G. Status of Statement of Audit Suspensions, Disallowances and Charges

The Disallowance amounting to ₱2,500.00 pertaining to 2017 transactions remained unsettled as of December 31, 2018.

H. Status of Prior Year's Audit Recommendations

Out of the nine prior years' audit recommendations embodied in the previous years' Annual Audit Report, two were fully implemented, six were partially implemented, one of which was reiterated in Part II of the report and one was not implemented as of December 31, 2018 which was also reiterated in Part II of the report.