



EXECUTIVE SUMMARY

A. Introduction

Ajuy Water District was created in 1979 in accordance with Presidential Decree No. 198, as amended, otherwise known as Provincial Water Utilities Act of 1973. It was issued Conditional Certificate of Conformance No. 110 dated January 10, 1980 by the Local Water Utilities Administration.

The District's main function is to provide and operate water supply and distribution system for domestic, commercial and industrial use in the Municipality of Ajuy, and at the same time develop a viable, safe and potable supply of water to improve the health condition and foster business activities in the Municipality. It is inspired by its vision of serving the people of Ajuy with a steady, improved and environment-friendly water supply in the 3rd millennium.

The Board of Directors, which acts as the policy-making body of the District, is composed of representatives coming from the different sectors of the community. As of calendar year 2018, the members of the Board are as follows:

- i. Rev. Fr. Eric C. De Julian - Civic
- ii. Mrs. Evangeline E. Balleza - Women
- iii. Mrs. Corazon A. Bonilla - Professional
- iv. Mr. Candido G. Centeno - Business

The administration is headed by Rev. F. Eric C. De Julian, the Chairman of the Board as the District currently does not have a General Manager or Officer-in-Charge, as signatory and approving officer of all transactions of the District, assisted by three regular employees and one job order laborer on a case to case basis.

B. Financial Highlights

The Financial Position and Profit and Loss and Other Comprehensive Income of Ajuy Water District for the year ended December 31, 2018 with comparative figures for CY 2018 are presented below:

Comparative Financial Position

	CY 2018
Assets	4,888,657.95
Liabilities	6,404,705.80
Equities	(1,516,047.85)

Comparative Profit and Loss and Other Comprehensive Income

	CY 2018
Income	614,350.92
Expenses	734,202.56
Net Income	(119,851.64)

C. Scope of Audit

The audit covered the examination on a test basis of the accounts and financial transactions and operations of Ajuy Water District for the period of January 1 to December 31, 2018 in accordance with International Standards of Supreme Audit Institutions (ISSAIs). The audit also involved performing procedures to ascertain the propriety of financial transactions and compliance of the Water District to prescribed laws, rules and regulations

D. Auditor's Opinion on the Financial Statements

An adverse opinion was rendered on the fairness of the presentation of the 2018 statement on the financial position, financial performance and cash flows for the years then ended for reasons stated in the Independent Auditor's Report under Part I of the Report.

E. Significant Findings and Recommendations

Presented below is the summary of observations and recommendations which were discussed with the District's representatives and their corresponding comments are incorporated in Part II of this Report.

1. The District does not maintain Subsidiary Ledgers for all of its accounts except for Accounts Receivable contrary to Sections 114 and 121 of Presidential Decree 1445, thereby, the validity and accuracy of these accounts could not be ascertained.

We recommended strict compliance with the provisions of P.D 1445. The Accounting Processor should make certain that its hardbound general and subsidiary ledgers should be annually registered with the BIR.

2. The balances of Accounts Receivable as reflected in the General Ledger and its Subsidiary Ledgers are not reconciled contrary to Section 114 of Presidential Decree No. 1445, resulting in discrepancy amounting to ₱57,052.02 as of December 31, 2018 rendering the accuracy of the account doubtful.

We recommended that the District reconcile the General Ledger with its subsidiary ledgers and take up the necessary adjusting/correcting entries.

3. The District failed to provide Allowance for Impairment - Accounts Receivable for CY 2018 contrary to Philippine Financial Reporting Standards (PFRS) 9 – Financial

Instruments thereby the Accounts Receivable was not measured at net realizable value as presented in the Statement of Financial Position.

We recommended that the District provide Allowance for Impairment – Accounts Receivable based on its accounting policy, PFRS 9 and Item C of COA Circular No. 2015-010 dated December 1, 2015 on the Revised Chart of Accounts for Government Corporations. The Accounting Section should request for write-off of dormant accounts, if warranted.

4. Office Supplies and Other Supplies and Materials Inventories as of December 31, 2018 amounting to ₱1,336.40 and ₱95,205.83, respectively cannot be ascertained due non-recording of withdrawals from stocks and non-conduct of physical inventory to reconcile the account, thereby casting doubt on the existence and valuation of the accounts.

We recommended that the Accounting Processor maintain subsidiary ledgers and Stock Ledger Cards while the designated in-charge of supplies maintain the Stock Cards as well as regularly prepare the RSMI every month for proper valuation purposes. An inventory committee should be constituted to conduct a semi-annual physical inventory-taking and prepare the corresponding report for reconciliation with accounting records to establish accuracy of balances.

5. The accuracy and existence of the Property, Plant and Equipment with a total carrying cost of ₱1,822,080.39 as of December 31, 2018 could not be ascertained due to the following deficiencies observed:

- 5.1. Failure of the District to conduct physical count of its Property, Plant and Equipment for CY 2018 with the total value of ₱5,757,010.41 and prepare a report thereon casts doubt on the existence and reliability in the valuation of the account.

We recommended that the District duly constitute a committee to conduct an annual physical inventory. The committee should prepare the corresponding Physical Inventory Report and reconcile it with accounting and property records and adjust affected accounts and records for accurate balances of PPE accounts. It is important that the District prepare this report as this will facilitate a more accurate presentation of the concerned accounts in its financial statements.

- 5.2. Computation of depreciation for Property, Plant and Equipment accounts for CY 2018 were not properly supported by a lapsing schedule, thereby casting doubt as to the accuracy of the balances of Depreciation Expense, Accumulated Depreciation and Retained Earnings reflected in the financial statements.

We recommended that the District should comply with the COA Circular Nos. 2003-007 and 2004-005 in the computation of the depreciation expense and ensure that this is supported it with the lapsing schedule.

6. Non-reconciliation of Loans Payable – Domestic between the District's general ledger vis-a-vis the loan confirmation reply of Local Water Utilities Administration (LWUA) resulted in a difference of ₱135,696.91 as of December 31, 2018, contrary

to Section 111 (2) of PD 1445 otherwise known as the “State Audit Code of the Philippines”; thus, rendering the accuracy of the Loans Payable account doubtful.

We recommended that the Accounting Processor trace the transactions in CY 2018 and conduct analysis and reconciliation of the accounts with LWUA’s confirmation reply before effecting entries in its books. Also, the District should coordinate with LWUA to reconcile and update the two records maintained by both parties. Discrepancies cited should be reconciled and accordingly adjusted to ensure fair presentation of the account in the financial statement. Finally, strict compliance with Section 111 (2) of PD 1445 is enjoined.

7. Non-recognition of Loans Penalty Payable amounting to ₱2,034,088.47 and understatement of Interest Payable amounting to ₱155,925.11 as of December 31, 2018 contrary to Section 111 (2) of PD 1445 otherwise known as the “State Audit Code of the Philippines” understated the liabilities of the District.

We recommended that the District prepare the following appropriate journal entry to properly recognize its liabilities:

8. The failure of the District to withhold and remit its mandatory contributions to government institutions, inability to pay on time the salaries and benefits of employees and default in its loan amortization payment to LWUA are manifestations of its inability to continue operating on a going concern basis.
 - 8.1. Non-withholding of employees’ shares for CY 2018 and non-remittance of government share of the Government Service Insurance System (GSIS) contributions resulted in the accumulation of Due to GSIS account totaling ₱1,815,251.26 as of December 31, 2018, contrary to Republic Act 8291, otherwise known as the Government Service Insurance Act of 1997; thus, depriving the employees of the social security benefits.
 - 8.2. Withheld taxes amounting to ₱542,955.97 as of December 31, 2018 were not remitted to the Bureau of Internal Revenue (BIR) in violation of BIR Revenue Regulation No. 2-98 as amended, thus exposing trust collections to misuse or misapplication.
 - 8.3. Non-withholding of employees’ shares and non-remittance of government share of Philippine Health Insurance Corporation (Philhealth) contributions for CY 2018 resulted in the accumulation of its Due to Philhealth account to ₱163,475.00 as of December 31, 2018, contrary to Republic Act 7875 as Amended, otherwise known as National Health Insurance Act of 2013; thus, depriving the employees of the benefits of affordable medical care.
 - 8.4. Non-withholding of employees’ shares and non-remittance of both employee and government shares, respectively, of the monthly Home Development Mutual Fund (Pag-IBIG) contributions for CY 2018 resulted in the accumulation of the Due to Pag-IBIG account to ₱150,000.00 as of December 31, 2018, contrary to Republic Act 9679, or the Home Development Mutual Fund Law of 2009, thus, depriving the employees of the benefits and privileges that could be availed therefrom.

- 8.5. Arrears in monthly salaries, cash gifts, 13th month pay and other benefits due to its employees amounting to a total of ₱1,704,503.39 as of December 31, 2018 casts doubt on the District's ability to operate on a going concern basis.
- 8.6. The Water District defaulted in the payment of its loans with LWUA amounting to ₱1,355,240.66, excluding interest payable.

We recommended that Management give the highest priority to the immediate remittance of all the premium contributions withheld of the agency personnel to the appropriate agencies to ensure that the employees can avail of security benefits from the government. Also, Management should intensify collection of its receivables, especially the past due accounts, in order to increase its cash inflow to pay its employees their due salaries and benefits.

F. Summary of Total Suspensions, Disallowances and Charges

The District has no audit disallowance, suspensions and charges as of December 31, 2018.

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

All 23 audit recommendations embodied in the previous year's annual audit report, were not implemented. Details are presented in Part III of this Report.