

## EXECUTIVE SUMMARY

### A. INTRODUCTION

The Cabanatuan City Water District is a quasi-public corporation established pursuant to PD No. 198 on October 18, 1974 through a resolution enacted by the Honorable City Council of Cabanatuan.



It must be noted that at the time the District was formed, the Cabanatuan City Water Works was owned and operated by the Province of Nueva Ecija. The District was just an entity without a water system.

That was until the late Governor Eduardo L. Joson heeded the entreaties of the citizens of Cabanatuan through the late Mayor Mario S. Garcia to turn over the ownership of the system to the District. This magnanimous act was made on March 12, 1975 with Governor “Tatang” Joson formally transferring the whole system to the District, then represented by Mr. Arturo G. Villasan, who at that time, was already its General Manager.

The old water system taken over by the District was constructed by the Insular Government in 1919 and was finished in 1922. It was originally designed to supply 300 service connections which included the Provincial Government Complex and other private buildings in the immediate surroundings. The system went through several

expansions between 1975 and 1978. In 1980, the District secured a loan from the World Bank through the Local Water Utilities Administration (LWUA) amounting to ₱42,000,000.00 and undertook a massive rehabilitation program from 1980 to 1982.

Since then, the District had undertaken programmed maintenance and expansions to keep in stride with the rapid increase in demand brought about by the unprecedented progress of Cabanatuan City.

To aid the District in the fulfillment of these, the District has entered into a Joint Venture (JV) Agreement with PrimeWater Infrastructure Corporation (Primewater), a private water service provider with a reach of 124 cities and municipalities nationwide. The District signed the JV Agreement with Primewater on the 30<sup>th</sup> day of January 2017 and kicked off on the 1<sup>st</sup> day of April 2017. The agreement calls for an investment of almost Five Billion pesos over 25 years with its business objective predominantly to attain the highest quality level of water supply and services to all water consumers within Cabanatuan City.

As specified in the JV Agreement, the District continues to handle several sections primarily Customer Services to ensure the efficient delivery of services to what its customers have been used to. Frontline services such as processing of new service connections, customer complaints, reconnection and disconnection and all other service requests are still handled and processed by this section and passed to the JV partner for execution, making sure that they comply with the Standard Response Times (SRTs) as contained in the District's Quality Management System (QMS). Another section is the Water Testing Laboratory ensuring the safeness and quality of its product.

Thus, the partnership of CCWD-Primewater brings to fore the best competencies of each party. The financing capabilities of Primewater and the Customer Oriented policies of the District which promise to provide the water needs and services of the Cabanatuëños in the foreseeable future.

The current members of Board of Directors of the District are as follows:

Name	Position
Mr. Arturo G. Villasan	Chairman
Mr. Danilo D. Angeles	Vice Chairman
Mr. Ruperto T. Sampoleo	Member
Mr. Peregrin T. De Guzman	Member
Ms. Charito E. Fabros	Member

The Management consists of:

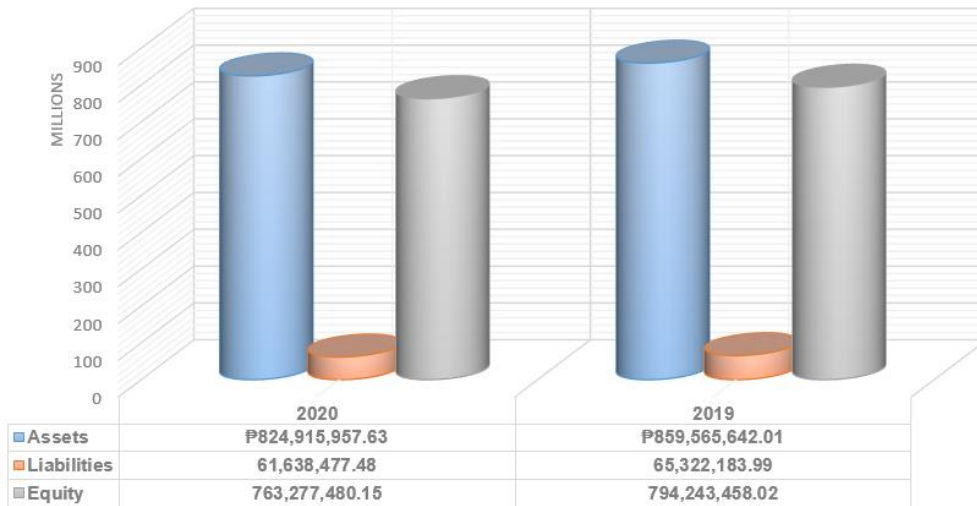
Name	Position
Mr. Mario G. Villasan	General Manager
Ms. Rowena C. Ronquillo	Head, Administrative Section
Ms. Michelle N. Canoza	Head, Customer Services

Name	Position
Ms. Veronica A. Presentacion	Head, Water Quality Section
Mr. Juanito C. Dimaliwat, Jr.	Head, Technical Services Section
Ms. Lorena S. Santiago	OIC, Finance Section
Ms. Anna Rhea Merced D. Bagaybagayan	Head, PR and Information Section
Mr. Mark Anthony C. Martinez	Head, Information Technology

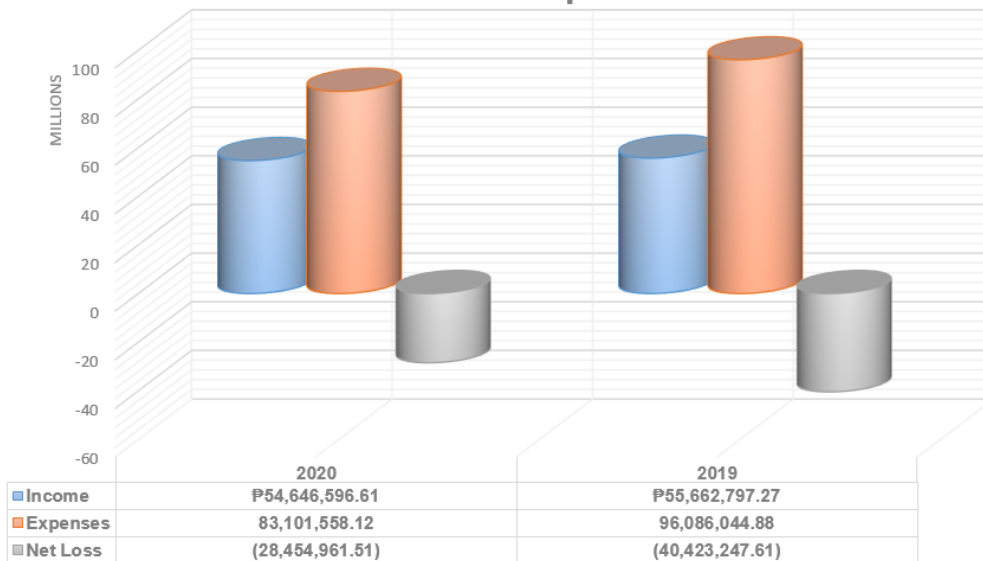
## B. FINANCIAL HIGHLIGHTS

The comparative analysis of the District's Financial Condition and Results of Operations for CYs 2020 and 2019 are shown below:

### Financial Condition



### Results of Operation



### **C. SCOPE OF AUDIT**

We conducted an audit of the financial transactions and operations of the District for the year ended December 31, 2020, on a sampling basis in accordance with the International Standards of Supreme Audit Institutions and Corporate Government Sector Memorandum dated October 4, 2019, prescribing 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, 2020.

### **E. SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

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

1. The collectability of the District's Accounts Receivable amounting to ₱11,833,535.44 is remote due to inadequate collection strategies contrary to Section 64 of the Government Accounting and Auditing Manual (GAAM), Volume I and sound collection policy and non-inclusion of provision in the JVA regarding efficient collection of receivables in arrears contrary to Section 7.7 of the 2013 Revised NEDA Guidelines and Procedures for entering into Joint Venture Agreement between Government and Private Entities. (*Observation No. 1*)

We recommended that Management thru the General Manager (a) coordinate with Prime Water to (i) revisit and formulate provision in the JVA regarding the collection efficiency of receivables in arrears; (ii) include a provision in the JVA that inactive concessionaires/disconnected accounts shall not be reconnected or cannot apply for new water service connections unless their unpaid arrears are settled; (b) require the Customer Services to (i) regularly send demand/collection letters thru the Prime Water together with the Statement of Account; and (ii) request authority from the Commission on Audit to write-off long dormant receivables deemed uncollectible, after all remedies have been exhausted.

2. Expenses incurred in the conduct of Joint Venture operations chargeable to Primewater and paid for by the District were not regularly reimbursed; thus, depriving the District of immediate use of its resources to finance its operation or settle its obligations. **(Observation No. 2)**

We reiterated our prior year's recommendation that Management thru the General Manager (a) make representation with Primewater to establish guidelines/agreement on prompt collection of the reimbursable expenses from the JV Partner; and (b) impose immediate actions to collect the outstanding receivables from Primewater.

3. The lease out of the District's properties with carrying amount of ₱533,840,639.62 in CY 2016 was not covered by a contract of lease and the annual lease payments or yearly rental payments were not determined based on the guidelines in COA Circular No. 88-282A, thus, protective clauses are not readily available to safeguard the District's interest. **(Observation No. 4)**

We recommended that Management (a) coordinate and follow up with the Primewater the contract of lease and submit the same for review to OGCC; and (b) submit the final and executed contract of lease to the COA TSO and Audit Team for review in pursuance to COA Circular No. 2019-005 dated August 7, 2019; (c) reassess the Annual Lease Payment using the BSRPMO Guidelines in Determining the Reasonable Rental Rates; and (d) assess its impact on the Financial Statements.

4. Completed projects prior to JV operations amounting to ₱21,175,841.29 were not included as part of contributed capital or leasable assets contrary to Article 2142 of Republic Act (RA) No. 386, "An Act to Ordain and Institute the Civil Code of the Philippines." **(Observation No. 5)**

We reiterated the previous year's recommendation that Management execute an addendum to the JV Agreement to consider the cost of the completed projects prior to JV operations as additional contributed assets to the JV to earn additional JV share or as part of leasable assets that will increase the income from lease payments of Primewater

5. Projects financed and completed by the District amounting to ₱33,206,656.25 were utilized by Primewater in violation of Section 2.5.1 of the Joint Venture (JV) Agreement. **(Observation No. 6)**

We reiterated the previous year's recommendation that Management require Primewater to reimburse the amount of completed projects totaling ₱33,206,656.25 which were financed by the District or execute an addendum to the JV Agreement to consider the cost of the completed projects as additional contributed assets to the JV to earn additional JV share or as part of leasable assets that will increase the income from lease payments of Primewater.

6. The District allowed its JV Partner, Primewater Infrastructure Inc., to seek approval of tariff adjustment from the National Water Resources Board (NWRB) in

violation of substantial and procedural requirements for approval of tariff of water districts, specified in Sections 37 and 63 of PD 198, as amended and Letter of Instruction 700 dated June 1, 1978. (*Observation No. 7*)

We recommended that the Members of the Board of Directors and the General Manager to stop the implementation of Board Resolution No. 2019-028 approving the water tariff rates approved and granted by the NWRB to Primewater until the approval of the appropriate regulatory body is obtained.

7. The District's net income has continuously diminished after it entered into JV Agreement with Primewater, which is not in consonance with Section 2 of Presidential Decree (PD) No. 1445 and Section 2.2 of the governing principles of the National Economic and Development Authority (NEDA) Guidelines. (*Observation No. 10*)

We reiterated our previous year's recommendation that the Members of the Board of Directors and the General Manager renegotiate and demand for the increase in annual fixed revenue share to address the downward trend in income of the District in the coming years.

#### **F. SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES**

There were no audit suspensions, disallowances and charges found in the audited transactions of the District for CY 2020. The Statement of Audit Suspensions, Disallowances and Charges had a balance of ₱13,640,926.64 as of December 31, 2020.

#### **G. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S UNIMPLEMENTED AUDIT RECOMMENDATIONS**

Of the ten audit recommendations embodied in the CY 2019 Financial Audit Report, two were fully implemented, two were partially implemented and six were not implemented.