EXECUTIVE SUMMARY

A. Introduction

The Baao Water District (BWD) Baao, Camarines Sur is a Government-Owned and Controlled Corporation (GOCC) that operates on the powers and authority conferred to it by Presidential Decree (PD) No. 198, otherwise known as the "Provincial Water Utilities Act of 1973," as amended by PD No. 768 and PD No. 1479. The BWD was granted Certificate of Conditional Conformance (CCC) No. 313 by the Local Water Utilities Administration (LWUA), after compliance with the legal requirements of the decree. It is categorized as a "Category C Water District"

An audit of the financial transactions and operations of the Water District (WD) for Calendar Year (CY) 2017 was conducted. Its objective is to ascertain the fairness of presentation of the financial statements presented by the WD for the purpose of expressing an opinion on these financial statements. It was also conducted to ascertain the validity, propriety and compliance to prescribed rules and regulations of its financial transactions and operations.

To attain the audit objectives, the audit was conducted in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Due to the voluminous transactions of the WD, the audit was conducted on a test basis, applying the audit procedures and techniques such as vouching, inspections and interviews.

The following are the operational highlights for CY 2017 and 2016 in terms of service connections, water sales and collections from water bills:

2017

	Target	Accomplishment	% of Accomplishment
Service Connections	5,660	6,834	120.74%
Sales	₱ 52,406,521.40	₱ 44,580,250.13	85.07%
Collections from water bills	₱ 46,933,639.43	₱ 41,320,356.41	88.04%

2016

	Target	Accomplishment	% of Accomplishment
Service Connections	4,925	5,089	103.33%
Sales	₱ 42,082,988.24	₱ 40,258,109.70	95.66%
Collections from water bills	₱ 43,642,637.65	₱ 40,050,732.21	91.77%

B. Financial Highlights

The following are the financial highlights composed of comparative financial position and financial performance for CYs 2017 and 2016:

	2017	2016	Increase/ (Decrease)
Assets	₱ 109,212,313.44	₱ 88,805,470.71	₱ 20,406,842.73
Liabilities	33,964,668.39	27,872,202.16	6,092,466.23
Equity	75,247,645.05	60,933,268.55	14,314,376.50

	2017	2016	Increase/ (Decrease)
Service and Business Income	₱ 44,131,999.86	₱ 41,845,688.03	₱ 2,286,311.83
Other Non-Operating Income	448,250.27	559,524.79	(111,274.52)
Total	**₱ 44,580,250.13**	**₱ 42,405,212.82**	**₱ 2,175,037.31**
Expenses:			
Personnel Services	₱ 11,466,023.07	₱ 11,792,393.95	₱ (326,370.88)
Maintenance and Other Operating Expenses	13,328,663.32	10,282,613.02	3,046,050.30
Financial Expenses	812,487.60	1,251,032.80	(438,545.20)
Non-Cash Expenses	4,788,505.88	5,177,325.52	(388,819.64)
Total	**₱ 30,395,679.87**	**₱ 28,503,365.29**	**₱ 1,892,314.58**
Net Income	**₱ 14,184,570.26**	**₱ 13,901,847.53**	**₱ 282,722.73**

C. Independent Auditor's Report on the Financial Statements

We rendered a qualified opinion on the fairness of presentation of the financial statements because of the observations listed below:

1. The accuracy of the recorded Accounts Receivable of ₱2.97 million is doubtful due to the variance of ₱307,390 with the Aging Schedule of Accounts Receivable/Subsidiary Ledger balance of ₱2.66 million.

2. A net discrepancy of ₱0.97 million in the Inventory accounts exists between the accounting records and the property records, thus the correctness of the balance of the inventory account as of year-end is doubtful.

3. A discrepancy of ₱5.74 million in the Property, Plant and Equipment (PPE) account exists between the General Ledger balances and the submitted Report on the Physical Count of Property, Plant and Equipment hence, the correctness of the PPE account balance is uncertain.

4. A net difference of ₱6.33 million exists between the Loans Payable recorded in the books of the Water District amounting to ₱16 million and the recorded Loans Receivable in the books of the LWUA of ₱9.67 million hence, the correctness of the Loans Payable account is doubtful.

D. Significant Audit Observations and Recommendations

Financial and Compliance Audit

1. The Allowance for Impairment – Accounts Receivable (AR) account amounting to ₱55,047 provided by the WD for the balance of the AR remained unchanged despite of the movement in the balance of the AR, affecting the fair presentation of the AR account in the financial statements.

   We recommended and Management agreed to require the Senior Accounting Processor A to compute and record the allowance in accordance with MGAS in order to correctly provide for an Allowance for Impairment-AR and properly present the AR in the correct net realizable value. Likewise, she should consider taking up adjusting entries to correct the unrecorded allowance and impairment loss for the previous years.

2. As in the previous years, the WD was not able to deposit to the LWUA/Baao Water District Deposit Portfolio Account as sinking fund (SF) reserve equivalent to three per cent of gross water sales for CY 2017 in the total amount of ₱1.24 million contrary to Section 37, Chapter IX of PD No. 198.

   We recommended that Management:

   a) Cause the deposit of the amount of ₱1.24 million corresponding to the SF for CY 2017 as computed; and

   b) Ensure that a SF equivalent to three percent of the WD's gross sales be deposited monthly to the LWUA-Water District Deposit Portfolio Account to avoid any sanctions or penalties that may arise due to its failure to provide the reserves. In the event that penalties may arise because of failure of the Water District to provide the needed SF, these penalties should be shouldered by the persons responsible and not from the funds of the WD.

3. The WD was not able to develop policies and plans to address concerns relating to Disaster Risk Reduction and Management (DRRM). Furthermore, it was not able to allocate a portion of its Corporate Operating Budget (COB) for 2017 as DRRM Fund contrary to the Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 10121.

   We recommended that Management inquire from the National Disaster Risk Reduction and Management Council to clarify on the said requirement. Thereafter, the WD

should use that information to develop policies and plans relating to DRRM, and allocate a portion from its COB as DRRM Fund to finance for its implementation.

Value-For-Money Audit

4. The WD was not able to conduct periodic performance audit of the water meters being used by its concessionaires to ensure the accuracy of their performance.

   We recommended that Management cause the conduct of the periodic performance audit of the water meters being used by its concessionaires after five years of utilization, depending on the condition of the operation, and the minor repair of its calibrator machine/water meter, after which to install it in the WD premises to be used regularly, pursuant to the LWUA Memorandum Circular No. 014-10.

5. Per Aging of the AR, past due inactive accounts in the total amount of ₱0.96 million which represented 36.08 per cent of the total AR of ₱2.66 million remained outstanding as of year-end due to the inability of Management to fully implement its collection strategies.

   We recommended and Management agreed to:

   a) Continue sending collection and demand letters to the defaulting concessionaires and those newly inactive accounts, and immediately follow up with the Iriga City Post Office regarding the other Registry Return Receipt Cards prior to sending out the second demand letters;

   b) Consider the sending out of demand letters by personal delivery and obtain the reaction of the defaulting concessionaires on their outstanding balances; and

   c) Institute legal actions against the defaulting concessionaires, especially those with long outstanding big accounts.

E. Summary of Total Suspensions, Disallowances and Charges as of Year-end

The ending balances of Notices of Suspension/Disallowances/Charges as of December 31, 2017 are as follows:

	Beginning Balance (As of December 31, 2016)	This Period January 1 to December 31, 2017		Ending Balance (As of December 31, 2017)
		NS/ND/NC	NSSDC	
Notice of Suspension	₱ 0.00	₱ 167,855.18	₱ 0.00	₱ 167,855.18
Notice of Disallowance	1,875,627.84	779,212.82	92,300.00	2,562,540.66
Notice of Charge	0.00	0.00	0.00	0.00
Total	**₱ 1,875,627.84**	**₱ 947,068.00**	**₱ 92,300.00**	**₱ 2,730,395.84**

F. Status of Implementation Prior Years' Audit Recommendations

Out of the 68 audit recommendations incorporated in the prior years' Annual Audit Reports, which covered CYs 2010-2016, nine were fully implemented, 36 were partially implemented and 23 were not implemented during the year 2017.