

EXECUTIVE SUMMARY

Introduction

Don Carlos Water District (DCWD) was formed on September 15, 1981 under the local government of Don Carlos and was transferred on August 12, 1983 which was approved by the Local Water Utilities Administration (LWUA) under Presidential Decree No. 198.

The operation of the District started on April 1, 1988 and is managed by a General Manager appointed by the Board. The General Manager has full supervision and control over the maintenance, operation and construction of water supply and wastewater disposal and administrative facilities of the District with full power and authority to exercise management prerogatives.

For calendar year 2018, the District is manned with 9 regular employees, and 30 employees under job order status assigned in four different sections. The Board of Directors is composed of five members from five different sectors and is the policy-making body of the District.

As of December 31, 2017, the District is serving a total population of 16,305 with total service connections of 3,910, of which, 3,261 is considered active. The District has been classified as Category D - small water district effective March, 2012 pursuant to LWD - MaCRO.

The audit examination of Don Carlos Water District covers the accounts and operations for calendar year 2017.

Our audit was conducted in accordance with the Philippine Public Sector Standards on Auditing and accordingly included such test of the accounting records and other procedures that are deemed necessary, including an evaluation of the design and operating effectiveness of internal controls.

The team secured copies of financial reports, schedules, and transactions documents which were reviewed, checked and evaluated. Analysis of accounts was also employed and series of interviews were conducted with concerned District personnel. Audit procedures which were deemed necessary were also performed such as tracing/verifying amounts from the transaction documents to financial reports and books of accounts, walk through, checking completeness of documentary requirements, and some other procedures were then employed.

The audit is aimed to:

1. Ascertain propriety of financial transactions and compliance of the district as to existing laws, rules and regulations;
2. Ascertain the accuracy of financial records and reports of the district;
3. Ascertain the fairness of presentation of the financial statements of DCWD for CY 2017; and

4. Determine whether the plans, programs, and activities for the year were attained in an efficient, economical and effective manner.

Financial Highlights

The comparative figures for calendar year 2017 and 2016 financial data showed decrease in the districts liabilities and operating expenses resulting to the increase of the district assets, equity, gross income and the overall net income after tax as summarized below:

Particulars	2017	2016	Increase (Decrease)
Total Assets	₱ 23,173,171.97	₱ 22,898,550.25	₱ 274,621.72
Total Liabilities	9,942,147.38	9,684,495.63	257,651.75
Total Equity	13,231,024.59	13,214,054.62	16,969.97
Gross Income	16,204,850.61	16,864,354.17	(659,503.56)
Operating Expenses	16,508,924.50	15,042,017.24	1,466,907.26
Net Income (Loss)	₱ (304,073.89)	₱ 1,822,336.93	₱ (2,126,410.82)

Independent Auditor's Report on the Financial Statements

A qualified opinion was rendered on the financial statements of Kibawe Water District as of December 31, 2017 because (a) the monetary value of the earned leave credits in the total amount of ₱2,385,992.19 was not recognized in the books as Leave Benefits Payable, contrary to the Philippine Accounting Standards (PAS) 19 Employee Benefits and COA Circular No 2015-010, thus, employees' benefits were not properly accounted for and disclosed in the Financial Statement; (b) the Property, Plant and Equipment accounts were overstated due to non-reclassification of semi-expendable property with a total cost of P2,259,707.15, contrary to Item 5.4 of COA Circular 2016-006 dated December 29, 2016; and (c) the reliability of Accounts Receivables amounting to P1,240,771.09 was doubtful due to a discrepancy of P31,824.25 between the balance per books and the balance appearing in the Aging Schedule of Accounts Receivable.

Summary of Significant Audit Observations and Recommendations

Other than the basis for the modified opinion, the following are the other significant observations with the corresponding recommendations, which need immediate action:

1. The District's water loss of 51.81 percent as of December 31, 2017 is above the approved maximum acceptable non-revenue water of 20 percent as prescribed under LWUA Resolution No. 444, Series of 2009, thus, affecting its efficiency level.

We recommended and Management agree to formulate more effective control measures or implement improvements to mitigate further revenue losses and promote operational efficiency in compliance with the standards set by LWUA.

2. Deep well water sources costing P2,397,067.00 had been abandoned by the District due to inadequacy of water, despite the fact that they have been constructed only on 2014 and 2015, resulting to unrecovered investments and failure to achieve the objectives of the District as declared under Section 2 of PD 198, as amended.

We recommended that the Management determine in the earliest time possible what actions should be undertaken in order to recover the amount invested in the deep wells, and to avoid spending additional costs on maintenance expenses, electricity and other expenses.

We also recommended that in the future, the Management should not wait for more than a year before it concludes that a certain water source cannot supply or meet the required volume of water of the District, to avoid further wastage of government resources.

3. The Property, Plant and Equipment accounts were overstated due to non-reclassification of semi-expendable property with a total cost of P2,259,707.15 contrary to Item 5.4 of COA Circular 2016-006 dated December 29, 2016.

We recommended that Management instruct the Accounting Processor to reclassify semi-expendable property with a total cost P2,259,707.15 from the Property, Plant and Equipment to the appropriate account in accordance with Section 5.4 of COA Circular No. 2016-006 dated December 29, 2016 and close the balance of the corresponding Accumulated Depreciation accounts.

We further recommended the recognition of tangible items below the capitalization threshold of P15,000.00 using the appropriate semi-expendable inventory accounts if not yet issued to end-user or as expense once issued to end-user during the year.

4. Items of property, plant and equipment with a total cost of P2,146,170.41 and a net book value of P1,888,757.93, have been determined to be unserviceable, but are still classified as items of property, plant and equipment (PPE), resulting to overstatement of the PPE account and contrary to PAS 16.

We recommended to thee Management to make the proper entry for the reclassification of the items of PPE that are already considered as unserviceable but are still to remain in the assets:

Other Assets	xxx	
Accumulated Depreciation	xxx	
PPE		xxx

However, if the Management decides to finally dispose of the unserviceable assets, the following entry should be made:

Cash / Loss on Disposal	xxx	
Accumulated Depreciation	xxx	
PPE		xxx

5. The District allows the withholding of creditable withholding tax at source despite its being an income tax exempt entity, contrary to Section 4 of Revenue Regulations No. 14-2002, dated September 9, 2002.

We recommended that the Management send letters to concerned concessionaires citing Section 4 of Revenue Regulation No. 14-2002 and other relevant BIR ruling to stop the withholding on income tax equivalent to 2% and 3% of the income payments. If such concessionaires still continue to withhold taxes, the District should treat such amounts as unpaid and be considered in determining past due payments.

Summary of Total Suspension, Disallowances and Charges as of Year-end

As of December 31, 2017 based on the Status of Suspensions, Disallowances and Charges issued to the District after the effectivity of COA Circular No. 2009-006 dated September 15, 2009, prescribing the Rules and Regulations on Settlement of Accounts (RRSA), total disallowances found in the audit in various transactions amounted to P94,199.98, as shown in the table below. The amount of disallowances in the books of the District amount only to P20,553.33 since no request for settlement has been sent to the Auditors as of December 31, 2017.

Particulars	Balance 12/31/2017	CY 2017 Issuances	CY 2017 Settlement	Balance 12/31/2017
Suspensions	0.00	0.00	0.00	0.00
Disallowances	P94,199.98	0.00	0.00	P94,199.98
Charges	0.00	0.00	0.00	0.00

Status of Prior Years' Audit Recommendations

As to the status of Prior Years' audit recommendations, our evaluation disclosed that five (5) recommendations were fully implemented and one (1) recommendation was partially implemented as of December 31, 2017.