

EXECUTIVE SUMMARY

A. Brief Profile

The Tubod-Baroy Water District located at Tubod, Lanao del Norte was created and formed last November 1982 with the vision and mission of providing a safe, reliable, sound and economically viable water supply and wastewater disposal system in the area. The Board of Directors was composed by the Chairman and four(4) BOD members and it has a total manpower of twenty-one (21) which include thirteen(13) regular employees, seven (7) casual employees and one job order employee. To date the district was categorized as Class D and has a total service water connections of 2,841.

A. Financial Highlights

	2012	2011	Increase /	% over
			(Decrease)	last year
Assets	P15,794,253.04	P14,281,027.97	P1,513,225.07	9.58%
Liabilities	12,689,478.85	13,030,249.78	(340,770.93)	(2.68%)
Government Equity	3,104,774.19	1,250,778.19	1,853,996	59.71%
Revenue	13,195,114.33	11,190,179.89	2,004,934.44	15.19%
Expenses	11,336,648.26	11,027,599.27	309,048.99	2.72%
Income	1,858,466.07	162,580.62	1,695,885.45	91.25%

The district's assets, liabilities and equity as of December 31, 2012 were P15,794,253.04, P12,689,478.85 and P3,104,774.19, respectively.

The Agency's revenue amounted to P13,195,114.33 which increased by P2,004,934.44 or 15.19% compared with last year of P11,190,179.89.

For calendar year 2012, the district total expenditure of P11,336,648.26 was incurred, in which P4,920,466.68 was expended for Personal Services, P5,126,496.07 was utilized for Maintenance and Other Operating Expenses and P1,289,685.51 for Financial Expenses.

B. Scope of Audit

The audit was conducted to ascertain the propriety of financial transactions and compliance of the agency with rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as fairness of the presentation of financial statements. It included review of operating procedures, inspection of programs and projects, verification, reconciliation, and analysis of accounts and such other audit procedures considered necessary under the circumstance.

C. Opinion on the Financial Statements

The Auditor rendered a clean opinion on the fairness of the presentation of the financial statements of the District for the year ended December 31, 2012 with emphasis on the matter. Audit finding 1 and 2. District properties deemed unserviceable amounting to P619,873.66, not disposed/reclassified to other assets; payables due to GSIS, BIR, Pag-ibig and Philhealth amounting to P146,373.53 were not recorded on the appropriate account.

E. Significant Findings and Recommendations

Favorable Observations

a. Cash and Cash Accounts

Cash collections were deposited intact and on a daily basis with the authorized government depository bank. As of December 31, 2012, the cash in vault and cash in bank accounts from all sources has balances of P2,192.09 and 2,602,704.38, respectively. All bank accounts were subjected to bank reconciliation and no significant deficiencies were noted in the bank reconciliation statements.

b. Compliance with Tax Laws and Regulations

The district had deducted and withheld, among others, 1) the required taxes from salaries/ compensations and other benefits of municipal officials and employees such as bonus, cash gifts above P30,000 as ceiling; 2) the required withholding tax for the purchases of goods, and services which is 1% and 2% of the gross amount, respectively and 3% of the gross amount as percentage tax for non-vat or person exempt from vat while 5% of the gross amount as percentage tax for vat registered; 3) the required 2% withholding tax and 5% percentage tax in the conduct of project, contract for goods and services. In support to the Comprehensive Tax Reform Act of 1997 and National Internal Revenue Code, the district deducted, withheld and remitted the same as required by tax laws and regulations.

However, in the conduct of audit of the accounts and transactions of the water district, the following are the deficiencies noted with the corresponding recommendations:

1. Unserviceable properties totaling P619,873.66 were not reclassified to other assets. This has resulted to the overstatement of the Utility Plant in Service (UPIS) account and rendering the Property, Plant and Equipment and Other and Other Assets account unreliable.

We have recommended and management agreed to reclassify the unserviceable/obsolete properties to the appropriate account and prepare an

Inventory and Inspection Report for Unserviceable Property and reclassify unserviceable properties from UPIS account to Other Assets account. In addition, we have also recommended that the items identified to be unserviceable/obsolete shall be disposed pursuant to existing regulations.

2. Incorrect reclassification of trust liabilities- Due to GSIS, Pag-ibig, Philhealth and BIR amounting to P146,373.53 from specific accounts to accounts payable could result to misleading information as regards their trusts liabilities balances as reported/ reflected in the financial statements at yearend.

We have recommended and management agreed to effect the following recommendation:

- Refrain from reclassifying trust liabilities from its respective specific accounts to another general liability accounts such as accounts payable. Adjust and reclassify the accounts to its appropriated accounts to determine the actual balances of these trust liabilities.
- Adopt preferably the NGAs Chart of Accounts for uniformity in accounting for government funds and property. Instead of using Account Payable accounts, use the expense and payable accounts provided under NGAs relative to GSIS, Pag-ibig, Philhealth and BIR.

3. Receivables-Customers inactive/closed accounts amounting to P1,880,191.20 and Accounts Receivable – others P321,154.73 with age ranging from 1 to 6 years are classified as current assets, contrary to accounting standard, resulting to overstatement of current assets and understatement of non-current assets accounts by the same amount.

We have recommended to the management to reclassify the inactive/closed account to non-current assets under the item other assets in compliance to paragraph 57 of PAS No. 1 for proper presentation of the receivables account in the financial statements.

4. The district has no absolute legal rights on two (2) lots wherein the construction of Baroy Pumping Station and Water Supply Project in Pigcarangan, Tubod, Lanao del Norte were located as of December 31, 2012. Consequently, the project improvements using government funds were not protected.

We have recommended and management assured to execute and facilitate the Deeds of Donation of the two lots wherein improvements were made thereon and facilitate also the transfer of Certificates of Title to ensure that no legal impediments may arise in the future.

5. The District did not adhere strictly with RA 9184 and IRR-A on the procurement of supplies, materials and equipment. In effect, determination of advantageous price favorable to the government is not assured.

We have recommended the following to the management:

- Procurement shall be done through bidding or, when applicable, through alternative methods of procurement;
- Instruct the Bids and Awards Committee should convene regularly to discuss matters related to procurement and obtain copy of the agency's Annual Procurement Plan.
- The Committee should prepare a BAC Resolution indicating the mode of procurement to be recommended for approval by the Head of the Procuring Entity (HOPE) in each procurement activity.
- Observe the regulations on repeat order that the quantity should not exceed 25% from the original purchase; and
- Strictly adhere to the provisions of RA 9184 in the procurement of equipment and materials and attach pertinent supporting documents to the disbursement voucher.

6. The Accountable Officers still do not prepare and submit the Report of Accountability of Accountable Forms (RAAF) as well as the maintenance of a permanent record of collections and deposits as of December 31, 2012 resulting to difficulty in tracing of their individual accountability.

We have recommended and management agreed the following recommendations:

- Teller and the cashier should maintain and keep separate cashbook footed monthly and reconciled at least every end of each quarter to ascertain the correctness of the cash account with the controlling account in the Accounting Section; and
- Require the Accountable Officers to render a report to the COA on their accountability for accountable forms at least once a month.

7. Designation of the Sr. Accounting Processor B as a regular member of the BAC is not in accordance with COA Circular No. 2003-04 dated July 30, 2003.

We have recommended the following to the management:

- Replace the Sr. Accounting Processor B as a regular member of the BAC, to comply with the provision of COA Circular No. 2003-004.

- Designate an officer from the accounting unit who is at least a 5th ranking permanent employee who may serve as provisional member only when the unit is the end-user of the items subject for bidding.