

EXECUTIVE SUMMARY

A. Background

The Metro Cotabato Water District which is originally called Cotabato Water District, derives its legal mandate to serve the populace from Presidential Decree No. 198, as amended, otherwise known as the Provincial Water Utilities Act of 1973. The District was formed on October 12, 1976, by virtue of Sangguniang Panglunsod ng Kutabato Resolution No. 35, dated March 9, 1976, authorizing its formation under Section 6 of P.D. 198. On March 7, 2004, the District was renamed to Metro Cotabato Water District, pursuant to CCWD Board Resolution No. 030B-03, dated August 8, 2003, and in accordance with LWUA Board of Trustees Resolution No. 186, series of 1997.

The District is committed to provide adequate and affordable supply of potable water to all its concessionaires, attain corporate viability, maintain organizational efficiency, pursue technological dynamism and consciousness in environmental protection in order to sustain a highly reliable system for the benefit of all people within its service area.

At present, MCWD has five (5) production water sources namely, Taniel Spring and Dimapatoy River located at Datu Odin Sinsuat and Rebuken, Macaguiling I & II Wells situated at Sultan Kudarat, Maguindanao. The District has three (3) concrete ground reservoirs located at PC Hill (2,000 cu. m. and 750 cu m.) and Awang (2,000 cu. m.). The 750 cu. m. reservoir at PC Hill serves the concessionaires thereat thru a booster station, due to its high elevation.

It serves almost all barangays in the City of Cotabato (except Tamontaka 4 and 5 and Kalanganan I-Darping) and several barangays in Sultan Kudarat and Datu Odin Sinsuat Municipalities with a total of 26,862 households/concessionaires as of December 31, 2012.

The powers, privileges and duties of the District are exercised and performed by and through the Board of Directors, as the policy making body, and is composed of the following:

Bimbo A. Sinsuat, Jr	-	Chairman
Fauziah B. Alba	-	Vice Chairman
Cecilia C. Barroga	-	Secretary
Lourdes V. Mastura	-	Treasurer
Atty.Eugenio U. Soyao	-	Auditor

Overseeing the day-to-day operations of the District for calendar year 2012 was carried out by Atty. Delfin C. Hilario, General Manager, together with the Assistant General Manager Leonora D. Gaudiano. Currently, the District has one hundred sixty-four (164) regular employees, seven (7) casual employees and forty-nine (49) job orders who are manning the operations.

B. Highlights of Financial Operation

For CY 2012, the Metro Cotabato Water District appropriated an amount of P176.493M. During the same year, total expenditures of P166.885M were incurred of which P73.061M or 44% went to personal services, P78.644M or 47% to MOOE, and P15.179M or 9% as financial expenses. For financial expenses, P15.082M or 99% was used to pay interest expense for loan borrowed from DBP.

As of December 31, 2012, the total assets of the district amounted to P359.360M; liabilities of P179.787M and Equity at P179.573M. The net income for the year was P17.918M derived from a gross income of P184.803M and total expenditures of P166.885M which is 32 % higher than the net income of P13.622M registered in 2011.

C. Scope of the Audit

A financial and compliance audit was conducted on the accounts and operations of the Metro Cotabato Water District for Calendar Year 2012. It was made to determine the validity and propriety of transactions, the fairness of presentation of accounts in the financial statements and the degree of adherence of the agency to existing accounting rules and regulations.

D. Auditor's Opinion on the Financial Statements

The auditor rendered a qualified opinion on the financial statements due to doubtful validity and collectability of Accounts Receivable in the amount of ₱2,287,876.92 which remain uncollected and dormant for five to twenty years; understatement of Cash- Collecting Officer by ₱912,042.36 due to erroneous recording of cash collection from water bills and other income to Cash-Disbursing Officer account; the understatement of the net realizable value of the Accounts Receivable by ₱1,129,837.40 due to overstatement in the provision for the allowance for doubtful accounts; understatement of the net book value of Property, Plant and Equipment by ₱2,659,547.98 because the residual value of fully depreciated assets were set at P1 per PPE item; and understatement of Other Assets account by ₱1,432,336.84 due to non-reclassification of serviceable assets not used in operation and those unserviceable properties waiting for disposal to Other Assets account.

E. Significant Findings and Recommendations

1. Cash collection from water bills and other income totaling ₱129,344,681.84 were erroneously debited to Cash-Disbursing Officer instead of Cash-Collecting Officer contrary to COA Circular 2004-002 and 2004-008, thus understating the Cash-

Collecting Officer account and overstating the Cash-Disbursing account by ₱912,042.36 at year-end.

We recommended that management instruct the Accounting Division to prepare an adjusting entry to correct the error in recording cash collections and conform to the correct usage of accounts in recording cash transactions as provided in the NGAS accounting policies and guidelines.

2. Receivables from water concessionaires totaling ₱2,287,876.92 remain uncollected and dormant for five to twenty three years, thus casting doubt to their collectibility and affecting the validity of the asset accounts in the financial statements.

We recommend that management: a) intensify its collection efforts by sending collection letters/demand letters to concessionaires with long overdue accounts; b) review and analyze the individual concessionaire accounts and the responses to the collection letters; and c) for those accounts which prove to be beyond collectability, request for authority to write-off pursuant to COA Circular 97-001 in order to clean up the books of accounts with doubtful accounts.

3. Allowance for Doubtful Accounts is overstated by ₱1,129,837.40 due to failure of the Accounting Division to adjust the provision for allowance per aging analysis of accounts receivable, thus understating the net realizable value of the Accounts Receivable and the Retained Earnings as presented in the financial statements.

We recommended that management instruct the Accounting Division to a) conduct a periodic analysis of receivables based on the age of uncollected accounts and determine the correct provision for the allowance for doubtful accounts with reference to the guidelines provided by the NGAS Manual; and b) correct the overstatement of the Allowance for Doubtful Accounts.

4. Residual value of fully depreciated assets costing ₱26,600,519.82 were set at P1 per PPE item instead of 10% of the cost of these assets contrary to Section 68, Volume I of the NGAS Manual, resulting in the overstatement of the accumulated depreciation and understatement of the net book value of PPE by ₱2,659,547.98.

We recommend that management instruct the Accounting Division to: (a) make necessary adjustments in the affected fully depreciated assets to ensure consistency in applying accounting estimates for the provision of depreciation with reference to the NGAS policy of providing a 10% residual value on the cost of the assets; and (b) ensure consistent application of NGAS policy in the computation of depreciation specifically on the 10% residual value of the cost of the depreciable assets.

5. Unserviceable properties totaling ₱1,432,336.84 are still booked under Property, Plant and Equipment instead of Other Assets, contrary to Section 79 of PD 1445 and COA Circular 2004-8, thus overstating the various property accounts and understating the Other Assets account.

We recommend that management -(a) cause the preparation and submission of the Inventory and Inspection Report of Unserviceable Properties (IIRUP) to the Accounting Unit and COA; and (b) require the Accounting Unit to reclassify to Other Assets accounts the net book value of all unserviceable properties based on the IIRUP.

We further recommend that Management see to it that the Disposal Committee initiate an action for the final disposal of unserviceable properties in accordance with COA rules and regulations

F. Status of Implementation by Management of Prior Year's Audit Recommendations

Of the five (5) audit recommendations contained in the previous years' Annual Audit Report, three were fully implemented and the remaining two are on the ongoing status of implementation.