

## EXECUTIVE SUMMARY

### Introduction

On May 23, 1973, President Marcos promulgated Presidential Decree 198 which calls for the establishment of reliable and economically viable water supply system for provincial urban population centres in the country. It authorizes the formation of autonomous Water District, on local option basis, to operate local waterworks system.

The Decree authorizes the Local Government Units to form water district within its jurisdiction. Once, formed, the water district is subject to the provisions of the Decree and not under the jurisdiction of any political subdivision.

Bongao Water District was created pursuant to the Provincial Board Resolution No. 87-10, initiated by then OIC-Governor Atty. Lorenzo R. Reyes. This Resolution also authorizes the Governor to transfer all existing facilities and assets of Provincial Waterworks to the newly formed Water District. The BWD was immediately recognized by Local Water Utilities Administration (LWUA) pursuant to the PD 198 empowering the Water District to exist as an autonomous body, free from political influence and independent of any local government unit. The Water District was also mandated to operate on a self-supporting and business-like-manner.

### Highlights of Financial Operation

During the year, total income and expenses amounted to **₱17,398,338.57** and **₱16,909,285.47**, respectively, with a net income of **₱489,053.10** realized by the district.

### Scope of Audit

The Audit was conducted on the Bongao Water District to ascertain the propriety of financial transactions and compliance to prescribed rules and regulations for the year ended December 31, 2011.

### Opinion in the State Auditor's Report on the Financial Statements

We rendered a qualified opinion on the fairness of presentation of the financial statements as discussed in detail in Part II of this report, due to the effects of the noted deficiencies on the balances of some accounts.

### Significant Finding and Recommendation

- 1. The district still failed to conduct the annual physical inventory to support its assertions on its Utility Plant in Service or Property, Plant and Equipment which showed a balance of **₱63,496,125.13** and **₱53,248,849.25** at gross and net**

**book value, respectively, on the balance sheet. Therefore, the validity, existence and correctness of the PPEs cannot be ascertained.**

We reiterate our recommendations that the Board of Directors shall initiate a resolution for the creation of inventory committee for the purpose of conducting annual physical inventory-taking of its PPEs in accordance with the guidelines set under the COA Circular No. 80-124 to determine the existence and condition of the property and require periodic reconciliation of records between the property and the accounting office.

- 2. The district failed to compute depreciation on its depreciable assets in violation of Section 67 and 68 of the Manual for NGAS and the COA Circular No. 2004-003, which cause the assets and expenses to be overstated and understated, respectively.**

In order to provide fair valuation of PPEs, we reiterate our recommendations for the management to compute the depreciation on the individual item of its depreciable assets to comply with the provisions prescribed by the above guidelines. Exert more efforts to secure necessary documents or records evidencing acquisitions of the PPEs, which could have served as the basis for computation of the depreciation for the current and previous years to arrive at the correct valuation of the assets.

- 3. The reliability and accuracy of Cash in Bank balance in the amount of Php549,582.67 reported in the Balance Sheet as of December 31, 2011 cannot be ascertained due to the non-preparation and submission of Bank Reconciliation Statements.**

We recommend that accounting officials should prepare and submit the monthly bank reconciliation statements, for all bank accounts, within fifteen (15) days after the end of each month. The agency should regularly secure Bank statements and/or snapshots from the depository banks in order to facilitate the timely preparation of the bank reconciliation statements.

- 4. The district failed to remit mandatory and loan deductions from salary of its employees contrary to the provision of Section 69 of PD 1445 and other regulations, thus concerned agencies were deprived of generating additional income and utilization of the fund.**

We reiterate our recommendations that the management shall remit promptly and regularly the withheld mandatory deductions or contributions to the concerned agencies as required by the above rules and regulations.

- 5. The district failed to withhold tax on government money payments in violation of the BIR Revenue Regulation No. 2-98 and Revenue Memorandum Order No. 8-2003.**

We reiterate our recommendation for the district's management to make necessary withholding of value added tax, percentage tax, income tax and such other taxes that may arise on all money payments as mandated by the foregoing BIR rules and regulations.

**6. Delayed submission of the Disbursement Vouchers and/or Check Issued, Report of Disbursement, thus timely audit verification and validation on the financial transactions could not be made.**

We recommend that the district shall submit promptly their financial reports and paid disbursement vouchers. The head of the agency shall ensure that proper utilization, recording and rendering of reports on the financial transactions are strictly observed.

**Status of Prior Years' Audit Recommendation**

Of the five(5) audit recommendations contained in the prior years' Annual Audit Report of the Bongao Water Distirct, one (1) was implemented/acted and four (4) remained unimplemented, the latter were reiterated this year. Matrix on the status of PY 2010 audit recommendations are shown in the Part III hereof.