

ANNUAL AUDIT REPORT
ON THE
TOLEDO CITY WATER DISTRICT

Toledo City, Cebu

For Calendar Year 2018

EXECUTIVE SUMMARY

A. INTRODUCTION

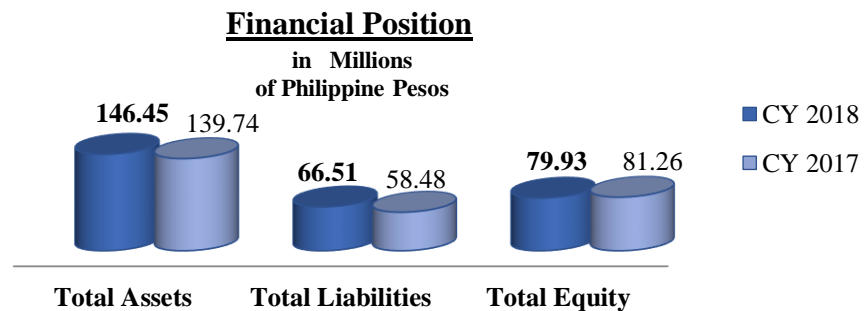
Toledo City Water District (TCWD) is a government-owned and controlled corporation created and existing by virtue of P.D. 198, as amended. A Certificate of Conformance, Certificate No. 195, was issued by the Local Water Utilities Administration (LWUA) to TCWD on September 30, 2004 validating its operations as one of the water districts of the country. On March 2012, pursuant to the Revised Local Water District Manual on Categorization, Re-Categorization and Other Related Matters, LWUA has categorized TCWD as Category “B”.

The administration of the Water District and the exercise of its corporate powers are vested exclusively in the Board of Directors and the General Manager as authorized by the Board.

As of December 31, 2018, the Water District had a total workforce of 89 employees composed of 75 regular personnel, 12 casual employees and two job order employees. The Water District is headed by General Manager Engr. Francisco R. Abellana.

B. FINANCIAL HIGHLIGHTS

The financial position and results of operations for Calendar Years 2017 and 2018 are summarized in the following graphs:



The Corporate Operating Budget for CY 2018 in the amount of ₱111,234,246.19 was approved through Board Resolution No. 61-2017 on November 27, 2017.

C. OPERATIONAL HIGHLIGHTS

The following were among the reported accomplishments of the Water District for the year as compared with that of the same period last year, as furnished to the Audit Team:

Category	CY 2018	CY 2017	Increase
Service Connections			
Total Services	15,826	15,112	714
Total Active	14,722	14,422	300
Total Metered	14,722	14,422	300
Total Concessionaires	73,610	72,110	1,500
Water Production			
Pumped	4,704,064 m ³	5,101,477 m ³	-397,413 m ³
Purchased Water	701,264 m ³	458,926 m ³	242,338 m ³

D. SCOPE OF AUDIT

The audit covered the financial transactions of TCWD for Calendar Year 2018. The objectives of the audit were primarily to: (a) ascertain the level of assurance that may be placed on management assertions on the financial statements; (b) review on a test basis, the propriety of disbursements and other financial transactions to determine adherence to pertinent laws, rules and regulations and recommend agency improvement opportunities thereon; and (c) determine the extent of implementation of prior year’s audit recommendations.

E. AUDITOR’S REPORT

The auditor expressed a qualified opinion on the financial statements of TCWD due to the audit exceptions as stated in the Independent Auditor’s Report, enumerated as follows:

1. The balance of Accounts Payable account as at December 31, 2018 aggregating ₱10.475 million could not be ascertained due to: (a.) inclusion of obligations which had been outstanding for more than two years and without valid claims which is contrary to Section 98 of Presidential Decree (PD) 1445; and (b.) recording of liability that is of doubtful validity due to lack of supporting documents. These conditions have overstated the affected expense and liability accounts and likewise understated the net income of the Water District.

2. The Water District did not accrue the unpaid expenses as at December 31, 2018 totaling ₱1.946 million contrary to Section 119 of Presidential Decree No. 1445. In effect, the recorded expenses were understated and consequently overstated the Net Income for CY 2018.
3. No impairment loss was recognized on certain Property, Plant and Equipment (PPE) accounts although indications of impairment existed, thus, the affected PPE accounts are carried at more than their recoverable amount which is contrary to Philippine Accounting Standards 36. (*details in the Annual Audit Report for CY 2017*)

F. OTHER SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

In addition to the above, the following were among the significant findings, with the corresponding audit recommendations, which are discussed in detail in Part II of the herein report:

1. The existence of several overdue and inactive accounts totaling ₱11.791 million or 44.30% of the Accounts Receivable (A/R) balance as at December 31, 2018 is an indication of poor collection efficiency which contravenes Section 2 of Presidential Decree (PD) No. 1445. Thus, depriving the Water District of additional funds that could help sustained in their operations.

We recommended that Management:

- Exert extra effort to intensify the collections and formulate/devise strategies to address the problem of collection/reduction of overdue and inactive accounts;
 - Instruct the concerned personnel in charge in the collection of receivables to maintain record/s that will facilitate the monitoring of the action taken by Management for each overdue/inactive account and the status of the subsequent action/s taken thereon.
 - Continue the filing of appropriate legal cases against these overdue and inactive accounts to enforce collections and ensure that monitoring is likewise undertaken on the status of the case/s already filed in court.
2. The Water District did not secure an approval from LWUA for the grant of “special” water rate of ₱15.00 per cubic meter for its bulk water sales to Cebu Energy Development Corporation. This arrangement, using the latest LWUA approved water rates, is grossly disadvantageous to the government.

We recommended that Management reassess the water rate granted to the aforementioned concessionaire and thereafter secure approval from LWUA on the use of a special water rate considering that the water rate agreed upon is not in the LWUA approved water rates for Toledo City Water District.

3. The budget allocation for Gender and Development (GAD) programs, projects and activities for CY2018 was below the mandated 5% of the approved Corporate Operating Budget (COB) as set forth in Section 6.1 of the PCW-NEDA-DBM Joint Circular No. 2012-01. Until this requirement is complied with, the present condition will continue to deprive the agency personnel and DWD clients of the benefits that may be derived from the GAD Programs.

We recommended that Management:

- Allocate the mandated amount for the GAD program, projects and activities as set forth in the PCW-NEDA-DBM Joint Circular No. 2012-01 and in the General Provisions of the General Appropriations, and
- Direct the GAD Focal Person to closely monitor the implementation of the GAD Plan and Budget so that the desired benefits from the Program can be fully felt by the Water District employees and clients, in the ensuing years.

G. IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 25 prior years' audit recommendations, eight were fully implemented, six partially implemented and 11 were not implemented as at December 31, 2018.

H. COMPLIANCE WITH TAX LAWS

TCWD has complied with all the tax laws on withholding of income tax from compensation and Value-Added Tax (VAT) on goods and services purchased. The taxes withheld were remitted regularly to the Bureau of Internal Revenue (BIR) along with the franchise tax due from TCWD as seller of water. The details are shown in Part II of the herein report.

I. GSIS DEDUCTIONS AND REMITTANCES

TCWD has consistently deducted from the salaries of their employees the mandatory GSIS Life and Retirement insurance premiums (personal share) and loan payments. These deductions and the government share for the employees' insurance premiums were remitted to the GSIS on time. Details of the remittances are shown in Part II of the herein report.

J. UNSETTLED SUSPENSIONS, DISALLOWANCES AND CHARGES

The following table shows the outstanding audit suspensions, disallowances and charges of TCWD as at December 31, 2018:

Particulars	Balance 12.31.2017	Issued and Settled During the Year 2018		Balance 12.31.2018
		Issued	Settled	
Suspensions	₱ 127,216.25	0.00	0.00	₱ 127,216.25
Disallowances	2,893,345.86	0.00	0.00	2,893,345.86
Charges	0.00	0.00	0.00	0.00
Total	₱ 3,020,562.11	0.00	0.00	₱ 3,020,562.11



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Toledo City Water District
Toledo City

Qualified Opinion

We have audited the financial statements of the Toledo City Water District (TCWD), which comprise the Statement of Financial Position as at December 31, 2018, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters discussed in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the TCWD as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

In forming our audit opinion, we considered the following audit observations which are discussed in detail in Part II and Part III (in brief) of the herein report:

1. The balance of Accounts Payable account as at December 31, 2018 aggregating ₱10.475 million could not be ascertained due to: (a.) inclusion of obligations which had been outstanding for more than two years and without valid claims which is contrary to Section 98 of PD 1445; and (b.) recording of liability that is of doubtful validity due to lack of supporting documents. These conditions have overstated the affected expense and liability accounts and likewise understated the net income of the Water District.
2. The Water District did not accrue the unpaid expenses as at December 31, 2018 totaling ₱1.946 million contrary to Section 119 of Presidential Decree No. 1445. In effect, the recorded expenses were understated and consequently overstated the Net Income for CY 2018.

We likewise considered the following condition that was previously reported in the Annual Audit Report of CY 2017 which has not been resolved as at December 31, 2018:

- No impairment loss was recognized on certain Property, Plant and Equipment (PPE) accounts although indications of impairment existed, thus, the affected PPE accounts are carried at more than their recoverable amount which is contrary to Philippine Accounting Standards 36.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the agency in accordance with the ethical requirements that are relevant to our audit of financial statements, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Except for the matter described in the *Basis for Qualified Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of Management and Those Charged with Governance of the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Water District's financial reporting process.


Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

COMMISSION ON AUDIT

By:



JENNY D. DAYOLA
OIC-Supervising Auditor

June 20, 2019



TOLEDO CITY WATER DISTRICT

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **TOLEDO CITY WATER DISTRICT** is responsible for the preparation of the financial statements as of **December 31, 2018**, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material statement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of **Toledo City Water District** in accordance with the Philippine Public Sector Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

ANTONIO S. MAPUTI
Chairman of the Board

02/04/19

Date Signed

Delina L. Delos Reyes
Finance & Commercial Services
Department Manager

02/01/19

Date Signed

Francisco R. Abellana
General Manager

02/01/19

Date Signed

TOLEDO CITY WATER DISTRICT
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018
(With Comparative Figures For The Year Ended December 31, 2017)

	Note	2018	2017
ASSETS			
<u>Current Assets</u>			
Cash and Cash Equivalents	3 & 4	₱ 5,381,689.33	₱ 5,025,213.99
Receivables	3 & 5	14,682,010.76	15,236,171.16
Inventories	3 & 6	7,081,136.09	7,027,767.95
Other Current Assets	8	322,563.60	321,745.60
Total Current Assets		27,467,399.78	27,610,898.70
<u>Non-Current Assets</u>			
Property, Plant and Equipment, Net	3 & 7	118,938,749.26	111,813,649.80
Other Non-Current Assets	8	41,000.00	314,629.86
Total Non-Current Assets		118,979,749.26	112,128,279.66
TOTAL ASSETS		₱ 146,447,149.04	₱ 139,739,178.36
LIABILITIES AND EQUITY			
LIABILITIES			
<u>Current Liabilities</u>			
Financial Liabilities	9	₱ 11,912,886.72	₱ 15,762,732.03
Inter-Agency Payables	10	1,403,015.05	1,641,219.18
Provisions	12	2,735,644.51	-
Other Payables	13	2,607,583.57	2,886,231.23
Total Current Liabilities		18,659,129.85	20,290,182.44
<u>Non-Current Liabilities</u>			
Financial Liabilities	9	47,656,967.52	38,012,948.98
Trust Liabilities	11	198,221.74	173,019.03
Total Non-Current Liabilities		47,855,189.26	38,185,968.01
TOTAL LIABILITIES		66,514,319.11	58,476,150.45
EQUITY			
Government Equity		67,574,453.58	67,574,453.58
Retained Earnings/(Deficit)		12,358,376.35	13,688,574.33
TOTAL EQUITY		79,932,829.93	81,263,027.91
TOTAL LIABILITIES AND EQUITY		₱ 146,447,149.04	₱ 139,739,178.36

See accompanying Notes to Financial Statements.

TOLEDO CITY WATER DISTRICT
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Figures For The Year Ended December 31, 2017)

	Note	2018	2017
INCOME			
Service and Business Income	14	₱ 81,229,468.03	₱ 82,330,667.41
Shares, Grant and Donations	14	142,500.00	-
Total Income		81,371,968.03	82,330,667.41
EXPENSES			
Personnel Services	15	36,703,849.26	35,652,339.50
Maintenance and Other Operating Expenses	16	31,308,523.06	35,674,093.45
Financial Expenses	17	4,012,001.00	4,128,864.98
Non-Cash Expenses	18	7,785,767.14	8,598,710.01
Total Expenses		79,810,140.46	84,054,007.94
NET INCOME/(LOSS)		₱ 1,561,827.57	₱ (1,723,340.53)

See accompanying Notes to Financial Statements.

TOLEDO CITY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Figures For The Year Ended December 31, 2017)

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Collection of Income/Revenue	P	1,569,096.40	P 5,114,459.50
Collection of Receivables		80,383,488.59	79,881,791.86
Receipt of Inter-Agency Fund Transfers		968,588.08	1,209,691.17
Receipt of Intra-Agency Fund Transfers		1,200,928.04	-
Trust Receipts		40,762.71	119,100.62
Other Receipts		292,749.19	105,236.48
Total Cash Inflows		84,455,613.01	86,430,279.63
Adjustments-Restoration of cash for cancelled/lost/stale checks/unreleased checks		2,555,429.68	22,946.02
Adjusted Cash Inflows		87,011,042.69	86,453,225.65
Cash Outflows			
Payment of Expenses		17,322,752.43	39,199,035.93
Purchase of Inventories		-	7,985,282.27
Grant of Cash Advances		4,367,399.03	884,199.40
Prepayments		715,007.09	-
Payment of Accounts Payable		31,987,627.87	-
Remittance of Personnel Benefit Contributions and Mandatory Deductions		24,142,203.30	24,961,841.75
Release of Inter-Agency Fund Transfers		-	373,075.80
Release of Intra-Agency Fund Transfers		1,200,928.04	-
Other Disbursements		477,712.09	-
Total Cash Outflows		80,213,629.85	73,403,435.15
Adjustments		-	114,961.71
Adjusted Cash Outflows		80,213,629.85	73,518,396.86
Net Cash Provided by (Used in) Operating Activities		6,797,412.84	12,934,828.79
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Outflows			
Purchase/Construction of Property, Plant and Equipment		987,142.50	8,546,641.62
Total Cash Outflows		987,142.50	8,546,641.62
Net Cash Provided by (Used in) Investing Activities		(987,142.50)	(8,546,641.62)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Outflows			
Payment of Long-Term Liabilities		1,346,454.00	1,335,565.02
Payment of Interest on Loans and Other Financial Charges		4,107,341.00	4,106,014.98
Total Cash Outflows		5,453,795.00	5,441,580.00
Net Cash Provided by (Used in) Financing Activities		(5,453,795.00)	(5,441,580.00)
Cash Provided by Operating, Investing and Financing Activities		356,475.34	(1,053,392.83)
Add: Cash and Cash Equivalents, January 1		5,025,213.99	6,078,606.82
CASH AND CASH EQUIVALENTS, DECEMBER 31	4	P 5,381,689.33	P 5,025,213.99

See accompanying Notes to Financial Statements.

TOLEDO CITY WATER DISTRICT
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Figures For The Year Ended December 31, 2017)

	Retained Earnings/ (Deficit)	Contributed Capital	Government Equity	TOTAL
Balance at January 1, 2017	₱ 13,935,209.05	₱ -	₱ 67,574,453.58	₱ 81,509,662.63
Changes in Equity for the CY 2017				-
Add/(Deduct):				-
Net Income/(Loss) for the year	(1,723,340.53)			(1,723,340.53)
Changes in Accounting Policy	(245,102.29)			(245,102.29)
Prior Period Errors	277,416.09			277,416.09
Other Adjustments	1,444,392.00	-		1,444,392.00
Balance at December 31, 2017	13,688,574.32	-	67,574,453.58	81,263,027.90
Changes in Equity for the CY 2018				
Add/(Deduct):				
Net Income/(Loss) for the year	1,561,827.57			1,561,827.57
Changes in Accounting Policy	(2,314,719.07)			(2,314,719.07)
Prior Period Errors	53,853.95			53,853.95
Other Adjustments	(631,160.42)			(631,160.42)
Balance at December 31, 2018	₱ 12,358,376.35	₱ -	₱ 67,574,453.58	₱ 79,932,829.93

**TOLEDO CITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018**

1. GENERAL INFORMATION

The financial statement of Toledo City Water District (TCWD) was authorized for issue on February 4, 2019 as shown in the Statement of Management's Responsibility for Financial Statements signed by Antonio S. Maputi, BOD Chairman.

TCWD is a Government Owned & Controlled Corporation created on September 15, 1980 by virtue of the Toledo City Sangguniang Panlungsod Resolution No.54 pursuant to the provisions of Presidential Decree No. 198, as amended. The Local Water Utilities Administration (LWUA) issued to TCWD a Certificate of Conformance No.195 on April 20, 1982 validating the entity as one of the water districts of the country. However, the newly established water system was not able to operate as a Water District after its creation for unknown reasons and, continued to operate under the management of the Toledo City Waterworks of the Local Government.

On October 15, 2001 the Toledo City Water District was reactivated thru Sangguniang Panlungsod Resolution No. 2001-80. Simultaneously, all the existing water system's facilities, installations and obligations integral to the waterworks operation were transferred to the Toledo City Water District. The Water District took over full operation of the defunct Toledo Waterworks System on April 2, 2002.

Currently, Toledo City Water District provides potable water supply system to 14,722 active service connections both residential and commercial establishments in Toledo City and covers twenty-one (21) component barangays. TCWD office is located in Right Wing Terminal Building, Baybay 1, Poblacion, Toledo City, Cebu.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of TCWD have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) prescribed by the Commission on Audit (COA) through COA Circular No. 2015-003 dated April 16, 2015 and COA Circular No. 2015-010 dated December 1, 2015.

The accounting policies have been consistently applied throughout the year presented.

The financial statements of TCWD have been prepared on the basis of historical cost, unless stated otherwise. The Statement of Cash Flows is prepared using the direct method.

The financial statements are presented in peso (₱), which is also the country's functional currency.

The preparation of the financial statements in compliance with the adopted PFRS requires the use of certain accounting estimates. It also requires entity to exercise judgment in applying the entity's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in Notes to Financial Statements.

PAS 1, Presentation of Financial Statements, provides framework of financial statements presentation. It requires more specific statement of financial position line items as applicable to the entity. The standard requires presentation of comparative financial statements and information.

PAS 2, Inventories, Inventories are valued at the lower of cost or net realizable value (NRV). Cost is determined using the moving average method. Per COA Circular No. 2015-010 dated December 1, 2015 (adoption of the Revised Chart of Accounts for GCs), property, plant and equipment with cost below ₱15,000.00 are classified as Semi Expendable Inventory.

PAS 16, Property, Plant and Equipment, provides additional guidelines and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item, property, plant and equipment with a cost that is in significant relation to the total cost of the item shall be depreciated separately. Property, Plant and Equipment with cost of below ₱15,000.00 per COA Circular No. 2015-010 dated December 1, 2015 (adoption of the Revised Chart of Accounts for GCs) are reclassified as Semi-Expendable Equipment.

PAS 19, Employee Benefits, the objective of this standard is to prescribe the accounting and disclosure of employee benefits (that is all forms of consideration given by an entity in exchange of service rendered by employees). The standard requires an entity to recognize a liability when an employee has provided services in exchange for employee benefits to be paid in the future; and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

PAS 36, Impairment of Assets, provides that an asset is impaired when its carrying amount exceeds its recoverable amount. Indications of impairments are the following: obsolescence or physical damage; asset is held for disposal and there is

evidence that the economic performance of an asset is, or will be, worse than expected.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 *Basis of Accounting*

The Water District's financial statements are prepared on an accrual basis in accordance with the PFRS.

3.2 *Cash and Cash Equivalents*

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash with original maturities of three months or less from date of acquisition and that are subject to an insignificant risk of change in value.

3.3 *Receivable*

Receivables are recognized and carried at original billed amount. Allowance for Impairment- Accounts Receivable is set-up in order to serve as back-up for potential losses on receivables.

3.4 *Inventories*

Construction materials and office supplies inventories are valued at costs and inventoried using the moving average method. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the TCWD.

3.5 *Property, Plant and Equipment*

Recognition

An item is recognized as property, plant and equipment (PPE) if it meets the characteristics and recognition criteria as PPE, as follows:

- tangible items;
- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- it is probable that the future economic benefits or service potential associated with the item will flow to the entity;
- the cost or fair value of the item can be measured reliably; and
- the cost is at least ₱15,000.00.

Measurement and Recognition

An item recognized as PPE is measured at cost. A PPE acquired through non-exchange transaction is measured at its fair value as at the date of acquisition.

The cost of the PPE is the cash price equivalent at the recognition date or, for PPE acquired through non cash-exchange transaction its cost is its fair value as at recognition date.

Cost includes the following:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- expenditure that is directly attributable to the bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and;
- initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during the period.

Measurement after Recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PPE are required to be replaced at intervals, the Water District recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized as expense in the statement of comprehensive income as incurred.

Depreciation

Depreciation is a method of allocating the cost of a tangible asset over its estimated useful life. Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

Initial Recognition of Depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

For simplicity and to avoid proportionate computation, the depreciation is for one month if the PPE is available for use on or before the 15th of the month. However, if the PPE is available for use after the 15th of the month, depreciation is for the succeeding month.

Depreciation Method

The straight-line method of depreciation is adopted unless another method is more appropriate for agency operation. The residual value of the PPE is deducted in computing for its depreciation.

Estimated Useful Life

The Toledo City Water District uses the life span of PPE prescribed by COA in determining the specific estimated useful life for each asset based on its experienced.

The Toledo City Water District uses a residual value equivalent to at least five percent (5%) of the cost of the PPE.

Impairment

An asset is impaired when its carrying amount exceeds its recoverable amount. Regular review of the Water District's PPE shall determine if there are items that may be impaired.

Derecognition

The Water District derecognizes items of property, plant and equipment and/or any significant part of an asset upon disposal or when no future

economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognized.

Depreciation is computed based on carrying values of the property using the straight-line method over their estimated useful lives. As set forth in COA Circular No. 2017-004, a residual value equivalent to five percent (5%) of the acquisition cost/appraisal value is deducted before dividing the same by the estimated useful life.

3.6 *Provisions, Contingent Liabilities and Contingent Assets*

a. Provisions

Provisions are recognized when TCWD has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where TCWD expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Provisions are reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provisions are reversed.

b. Contingent liabilities

TCWD does not recognize a contingent liability, but discloses details of any contingencies in the notes to financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

c. Contingent assets

TCWD does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-

occurrence of one or more uncertain future events not wholly within the control of TCWD in the notes to financial statements.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

3.7 *Changes in Accounting Policies and Estimates*

TCWD recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

TCWD recognizes the effects of changes in accounting estimates prospectively through surplus or deficit.

TCWD corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- a. Restating the comparative amounts for prior period(s) presented in which the error occurred; or
- b. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

3.8 *Revenue from Exchange Transactions*

a. Measurement of revenue

Revenue is measured at the fair value of the consideration received or receivable.

b. Rendering of services

TCWD recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

c. Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the TCWD.

3.9 Budget Information

The annual budget is prepared on a cash basis and is published in the government website.

A separate Statement of Comparison of Budget and Actual Amounts (SCBAA) is prepared since the budget and the financial statements are not prepared on comparable basis. The SCBAA is presented showing the original and final budget and the actual amounts on comparable basis to the budget.

3.10 Borrowing Costs

For loans borrowed directly by TCWD, the allowed alternative treatment is used.

3.11 Employee Benefits

The employees of TCWD are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

TCWD recognizes the undiscounted amount of short term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

3.12 Measurement Uncertainty

The preparation of financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenue and expenses during the period. Items requiring the use of significant estimates include useful life of a capital asset, rates for amortization and impairment of assets.

4. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2018		2017
Cash on Hand	₱ 238,512.20	₱	167,934.85
Cash in Bank	5,143,177.13		4,857,279.14
Total	₱ 5,381,689.33	₱	5,025,213.99

5. RECEIVABLES

5.1 Accounts Receivable and Other Receivables

This account consists of the following:

	2018		2017
Accounts Receivable	₱ 29,294,177.35	₱	29,259,895.93
<i>Allowance for Impairment – Accounts Receivable</i>	<i>(16,711,124.20)</i>		<i>(16,587,183.25)</i>
Net Value – A/R	₱ 12,583,053.15	₱	12,672,712.68
Other Receivables:			
Receivable – Disallowances/Charges	1,493,049.20		1,914,174.20
Due from Officers and Employees	0.00		37,856.49
Due from NGO/People’s Organizations	115,266.59		0.00
Other Receivables	690,562.56		811,348.53
<i>Allowance for Impairment – Other Receivables</i>	<i>(199,920.74)</i>		<i>(199,920.74)</i>
Total Other Receivables	2,098,957.61		2,563,458.48
Total Receivables, net	₱ 14,682,010.76	₱	15,236,171.16

5.2 Aging/Analysis of Receivables

As at December 31, 2017

	Total	Not Past Due	<30 days	Past Due 30-60 days	>60 days
Accounts Receivable	₱ 29,294,177.35	2,286,336.00	1,968,835.36	953,434.01	24,085,571.98
Other Receivables	2,098,957.61	2,098,957.61	0.00	0.00	0.00

6. INVENTORIES

This account consists of:

	2018	2017
Inventory Held for Consumption		
Beginning Balance	₱ 7,027,767.95	₱ 6,193,589.38
Additions/ Acquisitions during the year	4,994,757.92	13,542,311.10
Expensed during the year except write-down	(4,941,389.78)	(12,708,132.53)
Total	₱ 7,081,136.09	₱ 7,027,767.95

7. PROPERTY, PLANT, AND EQUIPMENT

This account comprises of the following:

	Land	Infrastructure Assets	Building and Other Structures	Machinery and Equipment	Land Transport Equipment	Furnitures and Fixtures	Other Property Plant & Equipment	Construction in Progress	Total
As at December 31, 2018									
Carrying Amount, January 1, 2018	₱ 1,831,216.00	₱ 82,316,222.92	₱ 18,476,644.69	₱ 3,162,228.13	₱ 1,720,275.53	₱ 81,328.75	₱ 1,737,838.46	₱ 2,487,895.32	₱ 111,813,649.80
Additions	0.00	321,351.16	0.00	255,415.00	0.00	0.00	0.00	2,056,524.80	2,633,290.96
Total	1,831,216.00	82,637,574.08	18,476,644.69	3,417,643.13	1,720,275.53	81,328.75	1,737,838.46	4,544,420.12	114,446,940.76
Cost of Completed Projects	0.00	2,579,164.50	275,068.30	0.00	0.00	0.00	0.00	(2,854,232.80)	0.00
Reclass./Adjustments:									
Cost Accumulated Depreciation	0.00	16,234,866.85	0.00	(103,938.11)	16,800.00	0.00	(3,589,273.70)	(404,820.35)	12,153,634.69
Depreciation (As per Statement of Comprehensive Income)	0.00	(2,047,501.09)	0.00	196,065.85	0.00	0.00	1,851,435.24	0.00	0.00
	0.00	(6,152,924.34)	(529,128.99)	(681,511.21)	(292,871.73)	(5,389.92)	0.00	0.00	(7,661,826.19)
Carrying Amount, December 31, 2018 (As per Statement of Financial Position)	1,831,216.00	93,251,180.00	18,222,584.00	2,828,259.66	1,444,203.80	75,938.83	0.00	1,285,366.97	118,938,749.26
Gross Cost (Asset Account Balance per Statement of Financial Position)	1,831,216.00	129,191,794.21	26,792,018.92	8,559,435.07	4,905,583.13	464,983.00	0.00	1,285,366.97	173,030,397.30
Accumulated Depreciation	0.00	(35,940,614.21)	(8,569,434.92)	(5,731,175.41)	(3,461,379.33)	(389,044.17)	0.00	0.00	(54,091,648.04)
Carrying Amount, December 31, 2018 (As per Statement of Financial Position)	₱ 1,831,216.00	₱ 93,251,180.00	₱ 18,222,584.00	₱ 2,828,259.66	₱ 1,444,203.80	₱ 75,938.83	₱ 0.00	₱ 1,285,366.97	₱ 118,938,749.26

	Land	Infrastructure Assets	Building and Other Structures	Machinery and Equipment	Land Transport Equipment	Furniture and Fixtures	Other Property Plant & Equipment	Construction in Progress	Total
As at December 31, 2017									
Carrying Amount, January 1, 2017	₱ 1,831,216.00	₱ 110,988,199.26	₱ 18,992,363.16	₱ 3,177,842.44	₱ 1,538,675.36	₱ 79,011.61	₱ 0.00	₱ 7,063,320.09	₱ 143,670,627.92
Additions	0.00	12,207,225.87	0.00	270,459.00	260,000.00	31,355.00	0.00	8,152,646.50	20,921,686.37
Total	1,831,216.00	123,195,425.13	18,992,363.16	3,448,301.44	1,798,675.36	110,366.61	0.00	15,215,966.59	164,592,314.29
Cost of Completed Projects	0.00	12,217,274.14	0.00	368,900.00	0.00	0.00	0.00	(12,586,174.14)	0.00
Reclass./Adjustments:									
Cost	0.00	(45,230,282.62)	(10,305.50)	903,275.61	803,872.00	(55,762.25)	3,589,273.70	(141,897.13)	(40,141,826.19)
Accumulated Depreciation	0.00	(780,094.07)	9,274.95	(863,450.20)	(592,671.35)	31,542.39	(1,851,435.24)	0.00	(4,046,833.52)
Depreciation (As per Statement of Comprehensive Income)	0.00	(7,086,099.66)	(514,687.92)	(694,798.72)	(289,600.48)	(4,818.00)	0.00	0.00	(8,590,004.78)
Carrying Amount, December 31, 2017 (As per Statement of Financial Position)	1,831,216.00	82,316,222.92	18,476,644.69	3,162,228.13	1,720,275.53	81,328.75	1,737,838.46	2,487,895.32	111,813,649.80
Gross Cost (Asset Account Balance per Statement of Financial Position)	1,831,216.00	110,056,411.70	26,516,950.62	8,407,958.18	4,888,783.13	464,983.00	3,589,273.70	2,487,895.32	158,243,471.65
Accumulated Depreciation	0.00	(27,740,188.78)	(8,040,305.93)	(5,245,730.05)	(3,168,507.60)	(383,654.25)	(1,851,435.24)	0.00	(46,429,821.85)
Carrying Amount, December 31, 2018 (As per Statement of Financial Position)	₱ 1,831,216.00	₱ 82,316,222.92	₱ 18,476,644.69	₱ 3,162,228.13	₱ 1,720,275.53	₱ 81,328.75	₱ 1,737,838.46	₱ 2,487,895.32	₱ 111,813,649.80

8. OTHER ASSETS

This account consists of the following:

	2018	2017
Other Current Assets		
Advances to Officers & Employees	₱ 6,000.00	₱ 74,728.00
Prepayments	164,865.00	95,319.00
Deposits	151,698.60	151,698.60
Total	₱ 322,563.60	₱ 321,745.60
Other Non-Current Assets		
Other Assets	41,000.00	314,629.86
Total Other Assets	₱ 363,563.60	₱ 636,375.46

9. FINANCIAL LIABILITIES

This account consists of the following:

	2018	2017
<i>Payables</i>		
Accounts Payable	₱ 10,475,254.45	₱ 15,587,489.90
Due to Officers & Employees	156,384.27	175,242.13
<i>Bills/Bonds/Loans Payable</i>		
Loans Payable - Domestic	1,281,248.00	
Total Financial Liabilities - Current	11,912,886.72	15,762,732.03
<i>Bills/Bonds/Loans Payable</i>		
Loans Payable - Domestic	47,656,967.52	38,012,948.98
Total Financial Liabilities - Non-Current	47,656,967.52	38,012,948.98
Total Financial Liabilities	₱ 59,569,854.24	₱ 53,775,681.01

10. INTER-AGENCY PAYABLES

These are the composition of this account:

	2018	2017
Due to BIR	₱ 665,430.08	₱ 933,346.04
Due to GSIS	600,549.49	600,569.93
Due to Pag-IBIG	47,804.38	45,020.39
Due to PhilHealth	43,808.03	36,175.00
Due to Gov't. Corporations	45,423.07	26,107.82
Inter-Agency Payables	₱ 1,403,015.05	₱ 1,641,219.18

11. TRUST LIABILITIES

This account consists of the following:

	2018	2017
Bail Bonds Payable	₱ 0.00	₱ 108,814.93
Guaranty/Security Deposits Payable	108,814.93	0.00
Customer Deposits Payable	89,406.81	64,204.10
Total Trust Liabilities	₱ 198,221.74	₱ 173,019.03

12. PROVISIONS

This account consists of the following:

	2018	2017
Leave Benefits Payable	₱ 2,735,644.51	₱ 0.00
Total	₱ 2,735,644.51	₱ 0.00

13. OTHER PAYABLES

This account consists of the following:

	2018	2017
Other Payables	₱ 2,607,583.57	₱ 2,886,231.23
Total	₱ 2,607,583.57	₱ 2,886,231.23

14. INCOME

These are the composition of this account:

	2018	2017
Service and Business Income		
Waterworks System Fees	₱ 77,236,871.84	₱ 78,481,016.08
<i>Sales Discounts</i>	(4,902.33)	0.00
Interest Income	5,404.77	9,569.86
Fines and Penalties – Business Income	2,534,998.44	2,231,811.92
Other Business Income	1,457,095.31	1,608,269.55
Total Service and Business Income	81,229,468.03	82,330,667.41

	2018	2017
Shares, Grants and Donations		
Income from Grants and Donations in Kind	₱ 142,500.00	₱ 0.00
Total Shares, Grants and Donations	142,500.00	0.00
Total Income	₱ 81,371,968.03	₱ 82,330,667.41

15. PERSONNEL SERVICES

Comprising this account are the following:

	2018	2017
Salaries and Wages		
Salaries and Wages-Regular	₱ 19,440,495.48	₱ 18,887,707.07
Salaries and Wages-Casual/Contractual	1,348,599.78	1,479,834.33
Total Salaries and Wages	20,789,095.26	20,367,541.40
Other Compensation		
Personnel Economic Relief Allowance (PERA)	1,827,000.00	1,761,000.00
Year End/Mid Year Bonus	1,712,527.00	1,702,783.00
Honoraria	822,288.00	878,228.00
Overtime and Night Pay	300,149.08	407,644.64
Representation Allowance (RA)	599,000.00	542,000.00
Transportation Allowance (TA)	599,000.00	542,000.00
Clothing/Uniform Allowance	461,000.00	420,000.00
Cash Gift	380,000.00	370,000.00
Other Bonuses and Allowances	2,439,702.00	3,039,366.14
Total Other Compensation	9,140,666.08	9,663,021.78
Personnel Benefits Contributions		
Retirement and Life Insurance Premium	2,449,567.77	2,267,200.86
PhilHealth Contributions	261,868.75	213,650.00
Pag-IBIG Contributions	91,400.00	89,400.00
Employees Compensation Insurance Premium	91,399.81	89,358.48
Provident/Welfare Fund Contributions	1,184,065.50	1,793,659.00
Total Personnel Benefits Contributions	4,078,301.83	4,453,268.34
Other Personnel Benefits		
Terminal Leave Benefits	2,695,786.09	1,168,507.98
Total Other Personnel Benefits	2,695,786.09	1,168,507.98
Total Personnel Services	₱ 36,703,849.26	₱ 35,652,339.50

16. MAINTENANCE AND OTHER OPERATING EXPENSES

This account is composed of the following expenses:

	2018	2017
Total Traveling Expenses	₱ 345,873.94	₱ 464,200.02
Training and Scholarship Expenses		
Training Expenses	262,192.53	815,603.56
Total Training and Scholarship Expenses	262,192.53	815,603.56
Supplies and Materials Expenses		
Office Supplies Expenses	442,010.47	541,979.55
Fuel, Oil and Lubricants Expenses	773,322.49	706,928.21
Chemical & Filtering Supplies Expenses	711,213.21	610,010.13
Other Supplies & Materials Expenses	19,592.70	72,476.25
Total Supplies and Materials Expenses	1,946,138.87	1,931,394.14
Utility Expenses		
Water Expenses	29,851.60	36,774.40
Electricity Expenses	534,763.88	542,174.07
Total Utility Expenses	564,615.48	578,948.47
Communication Expenses		
Postage and Courier Services	5,023.00	28,589.00
Telephone Expenses	457,048.81	445,203.35
Internet Subscription Expenses	22,395.00	35,643.00
Total Communication Expenses	484,466.81	509,435.35
Survey, Research, Exploration and Development Expenses		
Survey Expenses	116,021.60	0.00
Total Survey, Research, Exploration and Development Expenses	116,021.60	0.00
Total Generation, Transmission and Distribution Expenses	20,272,403.69	21,963,208.23
Total Extraordinary and Miscellaneous Expenses	331,192.76	743,795.20
Professional Services		
Legal Services	180,000.00	182,500.00
Auditing Services	149,668.20	0.00
Consultancy Services	0.00	345,950.40
Other Professional Services	132,596.40	457,000.00
Total Professional Services	462,264.60	985,450.40
General Services		
Security Services	719,100.00	741,710.10
Total General Services	719,100.00	741,710.10
Repairs and Maintenance		

	2018	2017
Repairs and Maintenance-Infrastructure Assets	1,978,388.32	2,470,751.81
Repairs and Maintenance-Machinery and Equipment	155,886.91	284,462.03
Repairs and Maintenance-Building and Other Structures	12,600.00	2,313.00
Repairs and Maintenance-Transportation Equipment	125,414.90	230,456.00
Repairs and Maintenance-Furnitures & Fixtures	8,059.90	49,685.95
Total Repairs and Maintenance	2,280,350.03	3,037,668.79
Taxes, Insurance Premiums and Other Fees		
Taxes, Duties and Licenses	1,629,753.44	1,727,339.64
Insurance Expense	84,562.65	86,148.60
Total Taxes, Insurance Premiums & Other Fees	1,714,316.09	1,813,488.24
Other Maintenance and Operating Expenses		
Advertising, Promotional and Marketing Expenses	11,695.00	257,885.00
Printing and Publication Expenses	4,480.00	9,415.00
Representation Expenses	103,704.31	60,260.50
Rent/Lease Expenses	1,464,710.40	1,420,001.00
Membership Dues and Other Contributions to Organizations	4,800.00	28,731.50
Other Maintenance & Operating Expense	220,196.95	312,897.95
Total Other Maintenance and Operating Expenses	1,809,586.66	2,089,190.95
Total Maintenance and Other Operating Expenses	₱ 31,308,523.06	₱ 35,674,093.45

17. FINANCIAL EXPENSES

This account is composed of the following:

	2018	2017
Interest Expenses	₱ 4,008,201.00	₱ 4,106,014.98
Bank Charges	3,800.00	22,850.00
Total Financial Expenses	₱ 4,012,001.00	₱ 4,128,864.98

18. NON-CASH EXPENSES

This account is composed of the following expenses:

	2018	2017
Depreciation		
Depreciation – Infrastructure Assets	₱ 6,152,924.34	₱ 7,086,099.66
Depreciation – Buildings and Other Structures	529,128.99	514,687.92
Depreciation – Machinery and Equipment	681,511.21	694,798.72
Depreciation – Transportation Equipment	292,871.73	289,600.48
Depreciation – Furniture, Fixtures and Books	5,389.92	4,818.00
Total Depreciation Expense	7,661,826.19	8,590,004.78
Impairment Loss		
Impairment Loss – Receivables	123,940.95	0.00
Total Impairment Loss - Receivables	123,940.95	0.00
Discounts and Rebates		
Other Discounts	0.00	8,705.23
Total Non-Cash Expenses	₱ 7,785,767.14	₱ 8,598,710.01

PART II OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL AUDIT

1. The balance of Accounts Payable account as at December 31, 2018 aggregating ₱10.475 million could not be ascertained due to: (a.) inclusion of obligations which had been outstanding for more than two years and without valid claims which is contrary to Section 98 of Presidential Decree (PD) 1445; and (b.) recording of liability that is of doubtful validity due to lack of supporting documents; These conditions have overstated the affected expense and liability accounts and likewise understated the net income of the Water District.

Section 98 of P.D. 1445 provides that, “*The Commission, upon notice to the head of agency concerned, may revert to the unappropriated surplus of the general fund of the national government, any unliquidated balance of accounts payable in the books of the national government, which has been outstanding for two years or more and against which no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts on record. This section shall not apply to unliquidated balances of accounts payable in trust funds as long as the purposes for which the funds were created have not been accomplished.*”

The Accounts payable account of the Toledo City Water District had a balance of ₱10,475,254.45 as at December 31, 2018. Our review of the Aging Analysis of the Accounts Payable disclosed that there were several past due accounts that were included as accounts payable with no documents to validate the claim, details of which are shown in the following table:

Table 1- List of payables without valid claims

Particulars	Amount		
	Over 1 year	Over 2 years	Over 3 years and onwards
1. Rhats Enterprises	₱ 810.00	₱ 13,127.00	
2. Cathay Hardware	1,080.00	14,800.00	
3. MIG System		102,324.00	₱ 2,157.50
4. Yale Harware		38,800.00	
5. AVK Phils.		84,731.24	
Total	₱ 1,890.00	₱ 253,782.24	₱ 2,157.50

The complete documents of the above payables were allegedly lost in the Administrative Department, which was then the in-charge of the procurement transactions of the Water District. The Audit Team was informed that some of the suppliers are now making follow ups for their payments. Upon inquiry from the Department Manager B of the Administrative Department revealed that they are still locating for the supporting documents.

Further review of the Aging Analysis of Accounts Payable showed that the payable to Galing Power and Energy Construction (GPEC) in the amount of ₱282,772.12 was already outstanding for over 3 years and there was no document to support such liability to GPEC. Verification of the Memorandum of Agreement entered into by GPEC and TCWD on April 30, 2015 relative to the construction of pump house and water supply in GPEC's temporary camp and office disclosed that TCWD has no liability nor an obligation to pay anything to GPEC. Hence, the recording of a liability to GPEC is without sufficient basis.

Section 111 of PD 1445, also known as the "Government Auditing Code of the Philippines", sets forth the standards in the keeping of accounts by government entities, as follows:

- (1) The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.*
- (2) The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.*

We recommended that Management exert extra efforts to locate the missing documents so that the obligations could already be settled and to prevent possible lawsuits that the supplier/s may file against the Water District for the non-payment of liabilities. We also recommended that henceforth, Management adhere to the provisions of Section 98 of PD 1445 on the reversion of payables without valid claims and strengthen the internal control in recording of liability and safekeeping of its appropriate supporting documents.

Management commented that reversal of the payable to GEPC and Utility Plan In Service–Transmission and Distribution account amounting ₱282,772.12 was made through JEV No. 19-06-390 on June 17, 2019 since upon verification, they were able to establish that such was erroneously booked as Accounts Payable instead of Construction In Progress account. As to the missing supporting documents, they will still locate for them. Furthermore, Management asserted that internal control in safekeeping of documents are now in place and the noted deficiencies were of prior years.

- 2. The Water District did not accrue the unpaid expenses as at December 31, 2018 totaling ₱1.946 million, contrary to Section 119 of Presidential Decree No. 1445. In effect, the recorded expenses were understated and consequently overstated the Net Income for CY 2018.**

Section 119 of PD 1445 provides the following:

“Section 119. Accounting for obligations and expenditures. – All lawful expenditures and obligations incurred during the year shall be taken up in the accounts of that year.”

Verification of TCWD’s transactions composing the Generation, Transmission and Distribution expense for CY 2018 disclosed the following unpaid expenses that were not recorded in the books:

Table 2- List of unpaid expenses in CY 2018 that were not recorded the books

Creditors	Particulars	Amount
Cebu III Electric Cooperative, Inc.	Power consumption for December 2018	₱1,145,997.03
Carmen Copper Corporation	Bulk water supply for December 2018	613,387.50
Atlas Fertilizer Corporation	Bulk water supply for December 2018	186,688.00
Total		₱1,946,072.53

The Generation, Transmission and Distribution expense represents the biggest chunk of TCWD’s maintenance and operating expenses and is composed of water production costs for the power consumption and the bulk water supply which were billed monthly. Verification disclosed that for CY 2018, the recorded expenses for the production costs were only for 11 months or from January to November 2018.

The Office-In-Charge of the Accounting Division explained that the accrual of the above expenses in December 2018 was not made since they planned to book such in January 2019 since the production in cubic meters in December 2018 were billed and booked as sales in January 2019, thus, the related production costs of such should also be booked in January 2019.

The non-recording of the related unpaid expenses in CY 2018 under the Generation, Transmission and Distribution expense not only contravenes the requirement of Section 119 of PD 1445 but likewise understated the expenses and consequently overstated the Net Income for CY 2018. Based on TCWD’s Statement of Comprehensive Income for CY 2018, it showed a Net Income of ₱1,561,827.57. Had it been appropriately taken up as expenses during the year, the financial performance of TCWD for CY 2018 would result in a Net Loss/Deficit of ₱384,244.96.

We recommended that Management require the Accounting Division to draw an adjusting entry to accordingly classify the expenses in the year it was incurred so as not to overstate the current year’s expenses. Also, we recommend that henceforth, Management enjoin the Accounting Division to ensure that all lawful expenditures and obligations are booked in the year they are incurred pursuant to Section 119 of PD 1445.

Management already booked the above expenses against Retained Earnings on June 17, 2019 through JEV No. 19-06-0391. Management committed to adhere to Section 119 of PD 1445 in recognizing expenses.

COMPLIANCE AUDIT

3. **The existence of several overdue and inactive accounts totaling ₱11.791 million or 44.30% of the Accounts Receivable (A/R) balance as at December 31, 2018 is an indication of poor collection efficiency which contravenes Section 2 of Presidential Decree (PD) No. 1445. Thus, depriving the Water District of additional funds that could help sustained in their operations.**

Section 2 of PD 1445 provides that, *“It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.”*

Verification of the Aging of Accounts Receivable excluding A/R-Coupons disclosed that the Water District has total active accounts which aggregated ₱15,042,419.46 or 55.70% of the total A/R balance as at December 31, 2018, while the inactive accounts totaled ₱11,965,421.89 or 44.30%, with details as follows:

Table 3- Aging of Accounts Receivable (excluding AR-Coupons)

Particulars	Active	Inactive	Total	Allowance for Impairment
1 – 30 days	₱ 2,589,940.37	₱ 69,706.19	₱ 2,659,646.56	₱ 132,982.33
31 – 90 days	388,935.17	104,595.85	493,531.02	49,353.10
Over 90 days	9,345,200.87	6,815,657.31	16,160,858.18	Active 2,336,300.22 Inactive 6,815,657.31
LGU (2001) Arrears	2,718,343.05	4,975,462.54	7,693,805.59	**7,376,831.24
Sub-total	₱ 15,042,419.46	₱ 11,965,421.89	₱ 27,007,841.35	₱ 16,711,124.20
Percentage	55.70 %	44.30 %		
AR-Coupons			2,286,336.00	
Total Accounts Receivable			₱ 29,294,177.35	57.05%

Note:

$Allowance\ for\ Impairment \div Total\ Accounts\ Receivable = 57.05\ %$

****95.88%** of the total receivable from LGU

As shown in the table above, the inactive accounts totaling ₱4,975,462.54 represent the unpaid water bills of several government offices at the time when the Local Government Unit (LGU) of Toledo undertook the operations of the waterworks system prior to CY 2002.

Inquiry disclosed that the Water District billed LGU-Toledo City on November 9, 2017 for the water consumed by its different offices/departments. In fact, on November 29, 2017, the Water District had a meeting with the officials of LGU-Toledo and had discussed the issue on unpaid water bills. However, the Office of the City Accountant of Toledo City commented on its letter dated December 29, 2017, that the subject unpaid water bills could not be processed due to lack of documents.

Further inquiry with the Water District's Administrative and Human Resources Department-Manager B, revealed that the Water District could only provide the statement of accounts to the LGU since the water bills in arrears were just included as part of the receivables at the time the operations of the waterworks system was turned over to the District on April 2, 2002.

Moreover, the Allowance for Impairment-A/R as at December 31, 2018 was ₱16,711,124.20 or 57.05% of the Total Accounts Receivable as shown in Table 3. The Allowance for Impairment was computed based on the impairment policy of the Water District pursuant to a Board Resolution No. 64-2018 which was unanimously approved on December 17, 2018, as follows:

	Percentage (%)
1 – 30 days	5
31 – 90 days	10
Over 90 days	25
Disconnected	100

As can be gleaned from the Table 3 above, the high percentage of inactive accounts and allowance for impairment is an indication of poor collection efficiency of the Water District. Thus, foregoing the opportunity to realize additional funds that could help sustained the operations of the Water District.

Our inquiry revealed that the Water District sent final demand/collection letters to concerned concessionaires. In 2017, cases were filed in the Municipal Trial Court in Cities for few identified concessionaires, however in 2018, the in-charge has not yet taken further/legal action for the rest of the overdue and inactive accounts.

We recommended that Management:

- **Exert extra effort to intensify the collections and formulate/devise strategies to address the problem of collection/reduction of overdue and inactive accounts;**
- **Instruct the concerned personnel in charge in the collection of receivables to maintain record/s that will facilitate the monitoring of the action taken by Management for each overdue/inactive account and the status of the subsequent action/s taken thereon.**
- **Continue the filing of appropriate legal cases against these overdue and inactive accounts to enforce collections and ensure that monitoring is likewise undertaken on the status of the case/s already filed in court.**

Management explained that efforts had been made to collect the receivables from inactive accounts, in fact number of accounts had been reduced since CY 2016. They committed to undertake further analysis of the inactive accounts in order to reduce them to an acceptable level.

- 4. The Water District did not secure an approval from Local Water Utilities Administration (LWUA) for the grant of “special” water rate of ₱15.00 per cubic meter for its bulk water sales to Cebu Energy Development Corporation (CEDC). This arrangement, using the latest LWUA approved water rates, is grossly disadvantageous to the government.**

Section 63 of PD 198 which is referred to as the “Provincial Water Utilities Act of 1973”, as amended, provides: *“Xxx...The rates or charges established by such a local water utility shall be subject to review by the Administration to establish compliance with the above-stated provisions. Xxxx”*

The latest approved water rates of Toledo City Water District was confirmed by the LWUA Board of Trustees on December 01, 2011 per Board Resolution No. 11-2011, and transmitted to the Water District in a letter dated December 05, 2011. The Schedule of Approved Water Rates which was implemented on December 1, 2011 carries the following classification of service connections: (1) Residential/Government; (2) Commercial/Industrial [Commercial A; Commercial B and Commercial C] and (3) Bulk/Wholesale. The lowest water rates under the Bulk/Wholesale are:

Meter Size	Minimum Charge	Commodity Charge (in cubic meter)			
		11-20	21-30	31-40	41-up
½” in diameter	₱ 468.00	₱ 54.60	₱ 63.60	₱ 73.20	₱ 85.80

The Schedule of Concessionaires provided by the Commercial Division to the Audit Team showed that the classification of Cebu Energy Development Corporation (CEDC) was Industrial under the Bulk Sales section. CEDC is a power generation company that owns and operates a 3x82 MW clean coal-fired power plant which needed an

adequate supply of potable water for the operation and maintenance of its Power Plant. Under the Memorandum of Agreement (MOA) between TCWD and CEDC, TCWD shall make available and supply CEDC a minimum of 500 cubic meters of potable water per day or an accumulated 15,000 cubic meters of potable water per month subject to and as far as limited or restricted by pertinent laws on the matter, such as the Water Code of the Philippines and the related statutes which shall be deemed incorporated into the said agreement. In consideration of the water supply of TCWD, CEDC agreed to pay TCWD the cost of pumping and supplying water in the amount of ₱15.00 per cubic meter (cu. m.), inclusive of all applicable taxes.

Presented below are the details of the water consumption of said customer with the corresponding billed amount at ₱15.00 per cu. m.:

Table 4- Cebu Energy Development Corporation (registered customer name)

Month	Consumption (in cu. m.)	Amount Billed	Should-Be (based on the LWUA approved water rates) ***	Difference
January	16,281	₱ 244,215.00	₱ 1,395,859.80	₱ 1,151,644.80
February	15,988	239,820.00	1,370,720.40	1,130,900.40
March	13,301	199,515.00	1,140,175.80	940,660.80
April	16,128	241,920.00	1,382,732.40	1,140,812.40
May	14,184	212,760.00	1,215,937.20	1,003,177.20
June	16,834	252,510.00	1,443,307.20	1,190,797.20
July	16,452	246,780.00	1,410,531.60	1,163,751.60
August	12,881	193,215.00	1,104,139.80	910,924.80
September	13,767	206,505.00	1,180,158.60	973,653.60
October	10,672	160,080.00	914,607.60	754,527.60
November	15,539	233,085.00	1,332,196.20	1,099,111.20
December	13,166	197,490.00	1,128,592.80	931,102.80
Total	175,193	₱ 2,627,895.00	₱ 15,018,959.40	₱ 12,391,064.40
*** Applying the lowest LWUA water rate for bulk sale (1/2")				

As can be gleaned from the table, even if the lowest base rate and variable unit rate for bulk water sales were applied, the present arrangement has deprived the Water District of additional income in 2018 totaling ₱12,391,064.40.

It was also noted that the stipulation in the MOA on the minimum payment by CEDC was not observed. Section 2.3 thereof, provides that:

*“The basis of the payment of CEDC to TCWD shall be the actual volume of water withdrawn per month or the agreed accumulated minimum volume of 15,000 cubic meters per month, **whichever is higher.**”*
(Emphasis Supplied)

As shown in Table 4, the total consumption of CEDC was below the minimum volume of 15,000 cu. m for the months of March, May, August, September, October and December, 2018. During the said months, CEDC should have been charged with the minimum amount of ₱225,000.00 (₱15 x 15,000 cu. m.) as what has been stipulated in the MOA.

Verification of records disclosed that the CEDC disputed the billings sent by TCWD particularly on the difference between the actual volume used and the minimum volume agreed. The reason of CEDC was that they were not able to consume or use the minimum 15,000 cu. m. due to shortage of water supply. The Engineering and Operations Division of TCWD likewise submitted its justification and it was stated that TCWD was having line pressure problem. Hence, the Board of Directors issued a resolution approving that the billing to CEDC will be based on the actual volume consumed. This has been practiced by the Water District even though the MOA was not rectified.

We recommended that Management reassess the water rate granted to the aforementioned concessionaire and thereafter secure approval from LWUA on the use of a special water rate considering that the water rate agreed upon is not in the LWUA approved water rates for Toledo City Water District.

To mention, Chapter 10 of the LWUA Manual on Water Rates and Related Practices, 2nd Edition, which deals on the subject: Sanctions on Misimplementation of Water Rates, provides the following, among others:

➤ *“In order to protect consumers from arbitrary and indiscriminate water rate increases, LWUA sees to it that only rates confirmed by the Administration are implemented. On this regard, LWUA takes due concern of **district’s non-implementation of confirmed rates since such inaction affects its viability and capability to settle obligations.** Towards this end, LWUA adopted specific sanctions on both the implementation of non-confirmed rates and the non-implementation of confirmed rates.” (Emphasis Supplied)*

➤ **NOT IMPLEMENTING LWUA CONFIRMED RATES**

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“(1) The district is admonished and required to explain that of implementing different rates. At the same time, LWUA must conduct an immediate rate review. If findings of the rate audit show adverse effect on the cash requirement, the district will be required to implement the confirmed rates within 30 days after the review. Otherwise, LWUA may confirm the actual rates implemented after compliance of all requirements.

(2) If the district makes no action to correct the situation or comply with the requirements, LWUA may withhold loan fund releases or balance of loan, if any, or withhold release of funds to implement loans otherwise already approved.

(3) If the district still refuses to comply, LWUA may withhold or recall approval of previously approved loans not yet implemented or refuse to make or approve new loans.”

Management commented that they were not aware of any applicable rate for the bulk water supply at the inception of the MOA between TCWD and CEDC, the ₱15.00 per cubic meter was mutually agreed by them. This matter will be presented to the Board of Directors for the reassessment of the special rate granted to CEDC and will have the rate approved by LWUA.

- 5. The budget allocation for Gender and Development (GAD) programs, projects and activities for CY2018 was below the mandated 5% of the approved Corporate Operating Budget (COB) as set forth in Section 6.1 of the PCW-NEDA-DBM Joint Circular No. 2012-01. Until this requirement is complied with, the present condition will continue to deprive the agency personnel and DWD clients of the benefits that may be derived from the GAD Programs.**

PCW-NEDA-DBM Joint Circular No. 2012-01 sets forth the revised Guidelines for the Preparation of Annual Gender and Development (GAD) Plans and Budgets and Accomplishment Reports to Implement the Magna Carta of Women. This Joint Circular supersedes the DBM-NEDA-NCRFW Joint Circular No. 2004-1 dated April 5, 2004. It took effect beginning 2013 for the GAD planning and budgeting process of FY 2014 and the ensuing years until repealed.

Among the important provisions of this Joint Circular are:

- Section 2.3 Pursuant to MCW** and the General Appropriations Act (GAA), all government departments, including x x x government-owned and controlled corporations (GOCCs) x x x shall formulate their annual GPBs ** within the context of their mandates to mainstream gender perspectives in their policies, programs and projects. GAD planning shall be integrated in the regular activities of the agencies, the cost of implementation of which shall be at least five percent (5%) of their total budgets. The computation and utilization shall be implemented in accordance with the specific guidelines provided therein.
- Section 6.1 At least five percent (5%) of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency’s maintenance and other operating expenses (MOOE), capital outlay (CO), and personal services (PS). It is

understood that GAD budget does not constitute an additional budget over an agency's total budget appropriations.

** MCW Magna Carta of Women
GPB GAD Plan and Budget

In support of the above provisions, Section 30 of RA 10964 (the General Appropriations Act of FY 2018), states:

Programs and Projects Related to Gender and Development. All agencies of the government shall formulate a Gender and Development (GAD) Plan designed to address gender issues within their concerned sectors or mandate and implement applicable provisions under R.A. No. 9710 or the Magna Carta of Women, Convention on the Elimination of All Forms of Discrimination Against Women, the Beijing Platform for Action, the Philippine Plan for Gender-Responsive Development (1995-2025), and the Philippine Development Plan (2017-2022).

The GAD Plan shall be integrated in the regular activities of the agencies, which shall be at least five percent (5%) of their budgets. For this purpose, activities currently being undertaken by agencies which relate to GAD or those that contribute to poverty alleviation, economic empowerment especially of marginalized women, protection, promotion, and fulfillment of women's human rights, and practice of gender-responsive governance are considered sufficient compliance with said requirement. Utilization of the GAD budget shall be evaluated based on the GAD performance indicators identified by said agencies.” (Emphasis Supplied)

Our review of the district's COB, GAD Plan and Budget and GAD Accomplishment Report for calendar year 2018 revealed the following:

Gender and Development (GAD)	2018
Approved Budget Per COB (A)	₱ 111,234,246.19
GAD Allocation (B)	3,339,960.00
% (B/A)	3.00 %
GAD Accomplishment (C)	₱ 2,609,108.80
% (C/B)	78.12 %

The Water District has not complied with the instruction on the mandated budget for GAD activities as set forth in Section 6.1 of the Joint Circular, which decision has deprived the agency personnel and BAWD clients of the benefits that could be derived from the GAD program.

As stated in the above-mentioned Section, at least five percent (5%) of the total agency budget appropriations authorized under the annual GAA, which is equivalent to the approved COB for the corporate government agencies, shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency's maintenance and other operating expenses (MOOE), capital outlay (CO), and personal

services (PS). It is therefore understood that the GAD budget does not constitute an additional budget over an agency’s total budget appropriations.

We recommended that Management:

- **Allocate the mandated amount for the GAD program, projects and activities as set forth in the PCW-NEDA-DBM Joint Circular No. 2012-01 and in the General Provisions of the General Appropriations, and**
- **Direct the GAD Focal Person to closely monitor the implementation of the GAD Plan and Budget so that the desired benefits from the Program can be fully felt by the Water District employees and clients, in the ensuing years.**

Management already allocated the mandated amount for GAD programs, projects and activities in the CY 2019 budget. Also, the Water District already established the GAD Focal Person, but there’s still a need to strengthen the latter’s functions and responsibilities as to the monitoring of the implementation of GAD plans.

Compliance with Tax Laws

For the CY 2018, the income taxes withheld from compensation and Value Added Taxes (VAT) on goods and services purchased, including franchise taxes were regularly remitted by the water district to the Bureau of Internal Revenue. The details are:

Table 5- Summary of tax remittances to BIR in CY 2018

Code	Tax Description	Amount
1600	VAT	₱ 1,819,065.89
2551-M	Franchise Tax	1,287,264.55
1601-C	W/holding Tax – Compensation	1,136,974.64
1601-E	Expanded W/holding Tax	358,969.35
Total		₱ 4,602,274.43

GSIS Deductions and Remittances

The Water District has consistently deducted from the salaries of their employees the mandatory GSIS Life and Retirement insurance premiums (personal share) and loan payments. These deductions along with the government share are remitted to the GSIS on time. The remittances made by the TCWD to the GSIS for CY 2018, are shown on the next page:

Table 6- Summary of remittances to the GSIS in 2018

Transactions Covered by the Remittance	Amount
GSIS Life and Retirement Premiums (Government Share)	₱ 2,441,244.84
GSIS Life and Retirement Premiums (Personal Share)	1,830,933.63
Consolidated Loan Repayments	1,731,461.91
Emergency Loan	689,649.12
Employees Compensation Contributions	91,599.62
Educational Assistance Loan	87,921.16
Policy Loan	18,999.89
Total	₱ 6,891,810.17

Status of Audit Suspensions, Disallowances and Charges

Hereunder is the summary of unsettled suspensions, disallowances and charges:

Particulars	Balance 12.31.2017	Issued and Settled During the Year 2018		Balance 12.31.2018
		Issued	Settled	
Suspensions	₱ 127,216.25	-	-	₱ 127,216.25
Disallowances	2,893,345.86	-	-	2,893,345.86
Charges	0.00	-	-	0.00
Total	₱ 3,020,562.11	-	-	₱ 3,020,562.11

PART III

STATUS OF IMPLEMENTATION BY THE AUDITEE OF PRIOR YEARS' AUDIT RECOMMENDATIONS

We followed up the actions taken by Management on the implementation of the 27 prior years' audit recommendations, two were merged to other audit recommendations due to similarity of issues raised. Of the remaining 25 prior years' audit recommendation for implementation in CY 2018, we noted that eight were fully implemented, six partially implemented and 11 were not implemented as at December 31, 2018. The details are:

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
1. Unreleased checks in the amount of ₱1.144 million as at December 31, 2017 were not reverted back to Cash in Bank resulting in the understatement of both the cash in bank and liability accounts in TCWD's books at year-end, which is not in conformance with the requirements of Sections 2.3 to 2.5 of the Government Accounting and Financial Management Information System (GAFMIS) Circular Letter No. 2002-001 dated December 16, 2002.	We recommended and Management agreed to require the Cashier B to prepare and submit a Schedule of Unreleased Checks to the Accounting Division (AD) at the end of each month and the AD to revert back the amount of unreleased checks to the cash balance at year-end.	CY 2017 AAR	Complied as to the preparation and submission of Schedule of Unreleased Checks. The necessary accounting entry at year-end was also prepared.	Considered fully implemented. Per verification of JEV No. 18-12-0893 dated December 27, 2018, the unreleased checks were already reverted back to Cash in Bank account as at year-end.
	We also recommended that Management require the Accounting Division Manager of the Accounting Division to thoroughly review the Bank Reconciliation Statements to strictly comply with the provisions of GAFMIS Circular Letter No. 2002-001.		Complied with the provisions of GAFMIS Circular Letter No. 2002-001	Considered fully implemented. Per verification of the Bank Reconciliation Statements prepared in CY 2018.

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
2. No impairment loss was recognized on certain PPE accounts although indications of impairment existed, thus, the affected PPE accounts are carried at more than their recoverable amount which is contrary to Philippine Accounting Standards (PAS) 36.	We recommended that Management require the concerned personnel at the Accounting Division to assess the Water District's assets at every end of the reporting date and recognize the corresponding impairment loss if indications of impairment exist to ensure that PPE are carried at no more than their recoverable amount in compliance with PAS 36.	CY 2017 AAR	Awaiting for the Appraisal Report from the Disposal Committee	Considered not implemented. No impairment loss has been recognized in the books of accounts as of December 31, 2018.
3. The unused portion of earned leave credits of employees of TCWD as of December 31, 2017 with money value totaling ₱2.430 million was not recognized as liability, which is contrary to Paragraph 11 of the Philippine Accounting Standards (PAS) 19 and COA Circular 2015-010 dated December 1,	We recommended and Management agreed to require the Department Manager B, to draw the Journal Voucher for the booking of the money value of the unused portion of the earned leave credits of employees as of December 31, 2017. Also, Management is enjoined to strictly adhere with the provisions of PAS 19 in recording the transactions pertaining to employees' benefits.	CY 2017 AAR	The Accounting Division already made the necessary booking per JEV Nos. 18-12-0873, 18-12-0907, 18-12-0909, and 18-12-0911	Considered fully implemented. Per verification of the JEVs, the Leave Benefits Payable account balance as of December 31, 2018 was ₱2,833,818.35.

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
2015, thereby, resulting in the understatement of the liability account as at year end.				
4. The percentage of Non-Revenue Water (NRW) to total water production of TCWD resulted in 39% for CY 2017 which is 95% above the maximum acceptable rate of 20% as set under the Local Water Utilities Administration (LWUA) Board Resolution No. 444, series 2009 as amended, thereby reducing the agency's revenue by an estimated amount of ₱33.553 million.	We recommended that Management implement additional preventive measures to reduce the NRW rate to the acceptable maximum level of 20% and accordingly prevent further revenue losses.	CY 2017 AAR CY 2016 AAR	1) Ongoing implementation of NRW Reduction CAPEX Project currently carried out by DPWH 2) To develop asset management and operational planning that will provide direction to achieve the agency objective to reduce NRW.	Considered partially implemented. The Water District's NRW for CY 2018 is still at 34.23%.
5. Disbursements aggregating ₱1.153 million for the government's share to the Provident Fund (PF) in CY 2017 was without authority since	We recommended that Management secure approval or authority from the DBM pertaining to TCWD's share to the Provident Fund in CY 2017 so as to preclude suspension in audit. We also	CY 2017 AAR	The giving of government's share to the Provident Fund was already suspended effective August, 2018 per approved BOD Resolution No.	Considered not implemented. The recommendation on the request for approval or authority from the DBM was not complied

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
TCWD's monetary contribution to the PF was not submitted for evaluation to the Department of Budget and Management (DBM) as required under Section 5.3.2.2 of DBM Budget Circular No. 2008-3 dated June 30, 2008.	recommended that Management ensure that the succeeding allocations for the government's monetary contributions to the Provident Fund is submitted to the DBM for further evaluation in order to conform to the requirement of Section 5.3.2.2 of DBM Budget Circular No. 2008-003.		36-2018 dated July 27, 2018.	yet. Although the payment of the government share has already been stopped due to current financial condition, the Management has still an intention to resume once the Water District attain financial sustainability.
6. The Water District did not develop a Water Safety Plan notwithstanding a declared national policy under the Department of Health (DOH) Administrative Order No. 2014-0027 dated September 4, 2014 and further instructed under LWUA Memorandum Circular No. 010.14 dated December 1, 2014. This requirement, if not addressed, may adversely affect the further	We recommended that Management, with the Board's participation, formulate its water safety plan (WSP) and submit the said plan to DOH thru LWUA as directed under DOH AO No. 2014-0027 and LWUA Memorandum Circular No. 010.14.	CY 2017 AAR	1) To send the officers concerned to LWUA training on Water Safety Plan 2) To request technical assistance from LWUA in the development of the plan	Considered not implemented. No WSP has been submitted by the agency for CY 2018

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
operations of the District.				
7. The Water District had incurred successive net losses for the two year period amounting ₱1.723 million and ₱1.982 million as reflected in its Statement of Comprehensive Income for CYs 2017 and 2016, respectively, thus, adversely affecting the viability of TCWD to carry-out its finances and operations as required under Section 37 of Chapter IX of Presidential Decree (PD) 198.	Thus, we recommended that Management implement cost-cutting measures in its programs/activities to eliminate, or at least reduce the Net Loss. We further recommended that Management develop strategy/action plan to lay down specific activities to be undertaken by the Water District so as to recover the losses incurred in CYs 2016 and 2017 and ultimately attain financial sustainability.	CY 2017 AAR	The Management has already implemented cost control and reduction measures particularly on training and traveling expenses. To recover the losses incurred in CYs 2016 and 2017, the Management will submit proposal for water rate increase to LWUA by 2020.	Considered fully implemented. Per verification of the Financial Statements, the training and traveling expenses were reduced by ₱553,411.03 and ₱118,326.08, respectively. There were also decreases in the other operating expenses thereby resulting a net income of ₱1,561,827.57 as at December 31, 2018. Considered not implemented. The request for water rate increase will be approved by LWUA once the Water District comply with the standard NRW rate, which should be below 30%. TCWD's NRW for CY 2018 is still at 34.23%.

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
8. The Water District allowed its employees to receive their salaries with net take home pay below the statutory requirement of ₱4,000.00 per month, for the period from October to December 2017, which was not in keeping with Section 47 of Republic Act 10924 (General Appropriations Act of 2017).	We recommended and Management agreed to require the Accountant Designate to strictly adhere to the instructions specifically provided in the General Appropriations Act relative to the required monthly net take home pay for government employees in a particular year.	CY 2017 AAR	To exercise due diligence in certifying the Net Take Home Pay of all TCWD employees.	Considered not implemented. Per verification from the December 2018 payroll, most of the employees still had a net take home pay lower than the prescribed minimum set by the GAA.
9. Unserviceable properties with a net book value of ₱3.228 million were still not disposed as at December 31, 2016, a condition which is disadvantageous to the Water District as it may result in substantial decrease of their economic value due to further physical deterioration. On the	We recommended and Management agreed to conduct the immediate disposal of the unserviceable properties that are still carried in the PPE and Other Assets accounts to clean the books of balances/information that may mislead the users of the financial statements and to save man-hours for the accounting reclassification of said items to either PPE or Semi-	CY 2016 AAR	Awaiting of the Appraisal Report from the Disposal Committee.	Considered not implemented. No disposal of unserviceable properties yet as of December 31, 2018.

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
<p>accounting aspect, this situation would translate to considerable number of man-hours to be spent in the reclassification of the recorded items to the appropriate asset accounts to conform to Philippine Accounting Standard (PAS) 16 and the recent capitalization threshold for Property, Plant and Equipment (PPE).</p>	<p>Expendable Property.</p>			
<p>10. Payments for purchased water were processed without a reconciliation of the volume billed against that were taken up as expense and/or indicated in the monthly Production and Power Cost Report. This practice, if left unchecked, may result in unresolved erroneous</p>	<p>To prevent the recurrence of the above-discussed conditions, we recommended that Management:</p> <ul style="list-style-type: none"> ➤ Instruct the Accounting Division to prepare a statement that will reconcile the volume of purchased water "as paid" against that reported in the monthly Production and 	<p>CY 2016 AAR</p>	<p>Reconciliations were already made but the over/under payments were not yet effected.</p>	<p>Considered partially implemented.</p> <p>The resulting over/under payments were not yet effected by TCWD.</p>

<i>Audit Observations</i>	<i>Audit Recommendations</i>	<i>Ref.</i>	<i>Action Taken By Management</i>	<i>Auditor's Validation Results</i>
(over/under) payments of water deliveries.	<p>Power Cost Report. Thereafter, effect the over/under payments in the current bills.</p> <p>➤ Require all water suppliers to submit their monthly billing statements on or before the 10th day of the following month so that all volume variances can be resolved immediately within the time frame indicated in the Agreements and before payment of bills/closing of the books of accounts.</p>			<p>Considered partially implemented.</p> <p>Billings from AFCI were already submitted to the Water District on or before the 10th day of the following month but for CCC, there were still billings that were received beyond the said period.</p>
<p>11. The Property, Plant and Equipment (PPE) account with a balance of ₱138.719 million as at December 31, 2015 cannot be fully relied upon due to the following reasons:</p> <p><i>a. All of the parcels of</i></p>	<p>We recommended that Management fast track the titling of all the parcels of land acquired by the Water District to protect its interests as a TCT establishes absolute ownership.</p> <p>We recommended that Management seek assistance, in writing, from the Chief Accountant of</p>	<p>CY 2015 AAR</p> <p>QAR CYs 2009-2012</p>	<p>Ongoing processing of the TCTs with the Bureau of Lands and Registry of Deeds</p> <p>Awaiting reply from the Toledo City Chief Accountant as basis of a</p>	<p>Considered partially implemented.</p> <p>The titling process is still ongoing.</p> <p>Considered partially implemented.</p> <p>TCWD has not</p>

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<p><i>land that are recorded in the books of accounts were still not titled in the name of the Toledo City Water District which condition renders the claimed ownership of the Water District assailable and poses risk of adverse claims.</i></p> <p><i>b. Properties that were turned over by the City of Toledo at the start of the District's operation, with a total cost of ₱26.448 million, were still carried in the PPE account even if could not be located, hence overstating the PPE account balance and raises questions on</i></p>	<p>Toledo City in locating the pertinent documents on the above-enumerated transferred properties in order to validate the existence/condition of said assets.</p> <p>Moreover, we recommended that Management instruct the Inventory Committee to truthfully report the actual condition/whereabouts/number of items seen and counted to make sure that correct data shall be indicated in the Report on the Physical Count of Property, Plant and Equipment (RPCPPE). We further recommended that the results of the physical count be reconciled with the related accounting and property records.</p>		<p>Management decision on the turned over properties</p> <p>Still under reconciliation with the LGU</p>	<p>received any feedback from the City Chief Accountant as of December 31, 2018.</p> <p>Considered not implemented.</p> <p>The Report on Physical Count of PPE (RPCPPE) as at December 31, 2018 still carried properties turned over by the LGU which could not be located.</p>

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<i>the accuracy of the physical count made. Also, there is an indication that the contents of the Report of the Physical Count of PPE were not thoroughly reviewed/reconciled with the related accounting and property records.</i>				
12. Several past due accounts were settled without requiring the concessionaires to pay the penalty of ₱20.00. This omission, if left unchecked, can reduce the income from fines and penalties and may create an impression that the policy on penalty is not mandatory.	If funds are available, we recommended an enhancement of the Billing and Collection System so that a routine can be provided for the automatic computation of the penalties for past due accounts.	CY 2014 AAR	Due to budget constraints the proposed system enhancements will be considered in the next 3 years.	Considered not implemented.
13. The ₱73 million project which was funded by a LWUA loan	We recommended that Management revisit all the agreements and	CY 2014 AAR	The 73M loan project from LWUA was closed in	Considered partially implemented.

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<p>granted in 2009 was still reported as 50% completed mainly because the loan released to the Water District was only about 52.43% of the approved amount, an issue which has to be revisited/resolved to ensure completion of the project and proper re-evaluation of the project accomplishment per component as this may affect the accounting treatment of the completed components, if any.</p>	<p>events on the ₱73.710 loan from LWUA so that new measures can be decided by top management and the Board of Directors on how to complete the project which was supposed to be fully covered/funded by the said loan.</p>		<p>November 2015 and the completion of the project will be sourced from the DPWH/tourism project (grant)</p>	<p>The project completion will be realized upon the implementation of the Repair/ Rehabilitation and improvement of TCWD Water Supply System which is funded thru DPWH grant. No update from DPWH as to the exact date of project completion as of December 31, 2018.</p>
<p>14. The account balance of the Loans Payable-Special Project in the amount of ₱37.147 million was understated because all the loan repayments which totaled ₱1.5 million were directly applied to the principal. The amount of</p>	<p>We recommended that management secure from LWUA the loan amortization schedule for Loan Account No. 4-2568 and the subsidiary ledger kept by the Administration on this loan account in order to guide TCWD management on the appropriate</p>	<p>CY 2014 AAR</p>	<p>Received the final amortization schedule for Loan Account No. 4-2568 in October, 2018.</p>	<p>Considered fully implemented.</p> <p>As verified from the amortization schedule furnished to the Audit Team</p>

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understatement could not be computed at the time of audit since LWUA has not released/sent to the Water District the loan amortization schedule for Loan Account No. 4-2568.	accounting treatment for its loan repayments.			
15. The Gender and Development (GAD) Plan and Budget for CY 2014 was not submitted to the Philippine Commission on Women for endorsement as required under Section 8.0 of the PCW-NEDA-DBM Joint Circular No. 2012-01. Thus, without PCWs review, there is no assurance that all the listed GAD activities are addressing women concerns and gender issues. Moreover, the amount allocated for GAD activities was less than the	<p>We recommended that Management request from PCW a “post-approval” of their CY 2014 GAD Plan and Budget so that the expenses incurred can be appropriately post audited.</p> <p>Henceforth, we recommended that Management strictly comply with the instructions on the preparation and submission of the GAD Plan and Budget and the GAD Accomplishment Report as enumerated in PCW-NEDA-DBM Joint Circular No. 2012-01 and its Annexes.</p>	CY 2014 AAR	<p>None</p> <p>Complied with the audit recommendation.</p>	<p>Considered not implemented.</p> <p>No request for post-approval was made by Management in relation to the 2014 GAD Plan and Budget.</p> <p>Considered fully implemented.</p> <p>The CY 2018 GAD Plan and Budget was already prepared in conformance with “Annex A” of the PCWD-NEDA-DBM Joint Circular No. 2012-01.</p>

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mandated 5% of the approved Corporate Operating Budget.				
16. Properties owned by the Water District with an insurable value of ₱57.564 million are not insured with the General Insurance Fund of the Government Service Insurance System (GSIS) as required under R.A. No. 656 and reiterated in Administrative Order Nos. 33 and 141. Under this circumstance, the Water District is denied of adequate and reliable protection against any damage to, or loss of their properties due to fire, earthquake and other risks from forces of nature.	We recommended that management insure all their insurable properties and interests with the General Insurance Fund of the GSIS in compliance with the provisions of R.A. No. 656, as reiterated in AO Nos. 33 and 141, to protect the interests of the government.	CY 2013 AAR	TCWD properties were already insured with the GSIS General Insurance Fund	Considered fully implemented. As verified from the Insurance Policies furnished to the Audit Team
17. The percentage of Non-Revenue Water (NRW) to	We requested that management identify the possible causes	CY 2013 AAR	Identified causes of NRW:	Considered fully implemented.

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<p>total water production was between 33% to 42% which is much higher than the 20% maximum acceptable limit for NRW as set forth under LWUA Resolution No. 444, Series of 2009. This condition is not only an immediate threat to the financial viability of the Water District but is also indicative of lapses in the management of the most important economic resource of water districts, the water sources and related facilities.</p>	<p>for TCWDs substantial water losses so that the Water District can reduce the Non-Revenue Water to at least the maximum acceptable limit of 20% to total production.</p>		<ol style="list-style-type: none"> 1) Dilapidated pipelines 2) Uncalibrated production meters 3) Due to old water meters (more than 5 years) 	<p>The Water District has already identified the causes of the NRW.</p>
<p>18. The cash deposited for Debt Service Reserve and Operation and Maintenance Reserve is still very much below the requirement under the loan</p>	<p>We recommended that management secure from LWUA updated statements on the required "reserves" for its outstanding loans so that TCWD can appropriately allocate/deposit the</p>	<p>QAR CYs 2009- 2012</p>	<p>The amount deposited for the reserve account was still below the 3% requirement under the Loan Agreement because the funds were utilized for priority Capex</p>	<p>Considered not implemented.</p> <p>The balance of the Joint Account with LWUA amounted to ₱891,394.69 as of December 31,</p>

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agreement with LWUA. This situation is not only an "event of default" under the loan contract but may also deprive the water district of adequate/ready cash resources for extraordinary repairs and replacement of facilities.	amount in the Joint Savings account maintained for the purpose.		projects.	2018, which is about 1% only of the total collections for CY 2018 amounting to ₱100,482,107.49 .
19. The agency still did not allocate a budget for Gender and Development (GAD) in their CY 2012 budget nor prepared a GAD Plan despite the previous audit observation on the subject matter. Until addressed, this condition deprives the water district personnel and TCWD clients of the benefits that could be derived from the program.	We recommended that management set aside at least five percent (5%) of the agency's budget as the annual allocation for GAD programs.	QAR CYs 2009-2012	To monitor and measure the implementation of GAD projects and initiatives	Considered not implemented. The same observation in CY 2018 (see Part II of the herein report) The CY 2018 GAD Plan and Budget was already prepared in conformance with "Annex A" of the PCWD-NEDA-DBM Joint Circular No. 2012-01.