



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

## **INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees  
Local Water Utilities Administration  
Katipunan Road, Balara  
Quezon City

We have audited the accompanying financial statements of the **Local Water Utilities Administration (LWUA)** which comprise the balance sheet as of December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. Except as stated in the following paragraphs, we conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Basis for Qualified Opinion*

There was a difference of ₱539.93 million between the General Ledger balance and the Subsidiary Ledger balances of Long-Term Loans Receivable for each Water District, thereby, casting doubt on the propriety of both balances.

Moreover, results of confirmations showed that the reported book balances of Cash, and Loans Receivables were overstated by ₱10.58 million and Loans Payable – Foreign was understated by ₱666.54 million. Consequently, the accuracy of the reported balances of Cash, Loans Receivables and Loans Payable-Foreign is not assured.

*Qualified Opinion*

In our opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraphs, the financial statements give a true and fair view of the financial position of Local Water Utilities Administration as of December 31, 2008 and of its financial performance and its cash flows for the year then ended in accordance with generally accepted state accounting standards.

*Emphasis of Matter*

Without further qualifying our opinion, we draw attention to Note 16 to the financial statements which provides that the amount of P310,400,000 released by the Department of Budget and Management (DBM) in the form of government subsidy to LWUA was treated as a Trust Liability taken up under the Other Current Liabilities-Other Payable account rather than taking it up in the Donated Surplus account or under the grant or subsidy income account as required by Section 6.1.2 of MOF-MOB-COA Joint Circular No. 1-82 dated October 31, 1981.

Further, Note 20 provides that Donated Surplus account represents subsidy support from the National Government and the cost of completed water supply projects funded out of the proceeds of grants from the National Government loaned out to water districts. Pursuant to the General Appropriations Act, said releases may be treated as equity contribution of the National Government to the Corporation in the event that its authorized capitalization is increased by law.

Pending the issuance of the said law that will specifically provide for the proper treatment of the government subsidy, the grants and subsidy received by LWUA from the National Government are now recorded and reported either as Donated Surplus or Trust Liability, as provided for in Notes 16 and 20 of the financial statements.

COMMISSION ON AUDIT

**DIVINIA M. ALAGON**

Director IV

April 27, 2009

**LOCAL WATER UTILITIES ADMINISTRATION**  
**BALANCE SHEET**  
December 31, 2008  
(in Philippine Pesos)

	Notes	2008	(As restated) 2007
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	2, 3	1,650,526,074	761,743,673
Accounts receivable, net	1, 4	1,047,469,523	1,102,822,326
Receivables from government agencies	5	599,834,371	327,295,322
Other receivables, net	6	44,224,021	28,619,195
Supplies inventory	2, 7	3,092,915	1,450,773
Prepaid expenses	8	361,809	1,033,992
Other current assets	9	105,163,910	108,327,267
<b>Total Current Assets</b>		<b>3,450,672,623</b>	2,331,292,548
<b>Non-Current Assets</b>			
Long-term receivables, net	2, 10	12,610,641,898	14,088,700,866
Long-term investments	2, 11	396,890,811	364,635,362
Property and equipment, net	2, 12	145,915,695	138,639,944
Other non-current assets	2, 13	171,284,131	64,086,343
<b>Total Non-Current Assets</b>		<b>13,324,732,535</b>	14,656,062,515
<b>TOTAL ASSETS</b>		<b>16,775,405,158</b>	16,987,355,063
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable	14	100,873,222	573,094,579
Payables to government agencies	15	587,497,052	217,983,000
Other current liabilities	16	1,142,860,874	882,352,193
<b>Total Current Liabilities</b>		<b>1,831,231,148</b>	1,673,429,772
<b>Non-Current Liabilities</b>			
Long-term liabilities, net	17	8,966,427,807	9,727,886,471
Deferred credits	2, 18	409,837,203	253,556,122
<b>Total Non-Current Liabilities</b>		<b>9,376,265,010</b>	9,981,442,593
<b>TOTAL LIABILITIES</b>		<b>11,207,496,158</b>	11,654,872,365
<b>EQUITY</b>		<b>5,567,909,000</b>	5,332,482,698
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>16,775,405,158</b>	16,987,355,063

See accompanying Notes to Financial Statements.

# LOCAL WATER UTILITIES ADMINISTRATION

## NOTES TO FINANCIAL STATEMENTS

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### 1. AGENCY INFORMATION

Presidential Decree No. 198 dated May 25, 1973 (as amended by Presidential Decrees Nos. 768 and 1479), otherwise known as the Provincial Water Utilities Act of 1973, created the Local Water Utilities Administration (LWUA) as a specialized lending institution for the promotion, development and financing of local water utilities. This law authorized LWUA to service major provincial urban areas with at least 20,000 population through the water districts. Part of the mandate is to provide a composite of financial, technical and institutional development and regulatory services to water utilities. Meanwhile, Executive Order No. 124 issued in 1987, abolished the Rural Waterworks Development Corporation (RWDC) and transferred RWDC's functions and responsibilities to LWUA. This issuance virtually placed all of the 1,500 cities/municipalities outside Metro Manila as LWUA's target areas. Since 1987, the new beneficiaries of LWUA included relatively smaller water districts than those in the 70's or 80's.

Some of the major functions of LWUA include the following:

- Prescribes minimum standards and regulations in order to assure acceptable standards of construction materials and supplies, maintenance, operation, personnel training, accounting and fiscal practices for local water utilities;
- Furnishes technical assistance for personnel training program for local water utilities;
- Monitors and evaluates local water standards;
- Effects systems integration, joint investment and operations, district annexation and de-annexation whenever economically warranted.

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Local Water Utilities Administration are as follows:

#### **Basis of Preparation**

The financial statements of LWUA have been prepared using the historical cost basis in compliance with the accounting principles generally accepted in the Philippines.

#### **Functional and Presentation Currencies**

The financial statements are stated in Philippine peso, rounded to the nearest peso unless otherwise stated.

## **Statement of Compliance**

The Local Water Utilities Administration has adopted the following Philippine Accounting Standards (PAS) by the Accounting Standards Council (ASC) in preparation for the full adoption of PAS / Philippine Financial Reporting Standards (PFRS).

- PAS 1 “Presentation of Financial Statements”, provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying assets and liabilities as current and non-current; prohibits the presentation of income from operating activities and extraordinary items as separate line items in the statement of income; and specifies the disclosures about the key sources of estimation which management has made in the process of applying the entity’s accounting policies.
- PAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” removes the concept of fundamental error to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting errors.
- PAS 12, “Income Taxes”, which prescribes the accounting treatment for income taxes. It requires the recognition of deferred income tax liability for taxable temporary differences, with certain exceptions and deferred income tax asset for deductible temporary differences, with certain exceptions, if it is probable, a tax benefit will be realized. It also deals with the presentation of income taxes in the financial statements and the disclosure of information relating to income taxes.
- PAS 16 “Property, Plant and Equipment”, provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
- PAS 21 “The Effects of Changes in Foreign Exchange Rates”, provides additional guidance on the translation method and on determining the functional and presentation currencies.

## **Restatement of Account Balances in CY 2007**

In compliance with Paragraphs 57 and 59 of PAS # 1 regarding the fair presentation of financial statements and in compliance with PFRS, specifically on the recognition criteria of a current asset, the account “Receivable from Officers and Employees for Housing Association Loan and Multi-purpose Loan” was reclassified from the Accounts Receivable, current assets caption, into Long-term Receivables of the non-current assets caption. This reclassification, in effect, decreased the Accounts Receivable under the current asset caption by ₱117,345,122 and increased the Long-term Receivables shown under the non-current asset caption by the same amount for 2007 restated figures over the 2007 figures in the last year’s published Annual Audit Report. Cash Flow Statement has been restated for CY 2007 to disclose the net effect of changes in foreign exchange rates in compliance with PAS 21.

### **Revenue Recognition**

The Corporation employs the modified accrual basis of accounting where revenues are recognized to the extent that it is probable that the economic benefits associated with the transactions will flow to the corporation and the amount can be measured reliably.

### **Cash Equivalents**

Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to insignificant risk of changes in value.

### **Investments**

Investments in government bonds and treasury notes are valued at cost. The difference between the net proceeds from the sale of government securities and its cost is recorded under the "Income (Loss) on Sale of Government Securities" account. Realized gains or losses are included in determining the net income for the period in which they occur.

### **Bad Debts**

For performing loans, estimated uncollectible accounts are determined at 25% of interest receivable and current portion of long-term loans receivable, and 4% of long-term portion of loans receivable. On the other hand, non-performing loans and loans to non-operational Water Districts are provided with a 40% allowance.

### **Property and Equipment**

Property and equipment are carried at cost, less accumulated depreciation, which is computed using the straight-line method over the estimated useful lives of the assets ranging from five (5) to thirty (30) years.

Repairs and maintenance costs are charged to operations as incurred and significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

### **Inventories**

Inventories are stated at cost determined by the first-in, first-out method. Subsequent change in accounting policy from FIFO method to the Moving Average Method shall take place upon completion of the Computerized Supplies Inventory System.

### **Income Tax**

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial reporting bases of assets and liabilities and their related tax bases. Deferred tax assets and liabilities are measured

using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

### **Foreign Currency Transactions**

Outstanding loans from USAID, DANIDA and other foreign currency denominated loans where the Corporation undertakes the foreign exchange fluctuation risk are stated at their current values. The resulting foreign exchange fluctuation difference incurred for the year is recorded in profit or loss.

### **Engineering Services/Well Drilling**

To ensure the successful implementation of the water supply system financed by the Corporation, well drilling and engineering services are rendered to the water districts for a fee. Expenses relative to these services are booked as “Deferred Charges” when incurred and eventually transferred to the receivable when billed or expense accounts when the implementation of the water supply system is discontinued.

### **Unearned Income from Well Drilling Contracts**

The income from Well Drilling Projects (WDP) are recorded under the Unearned Income from Well Drilling Contracts. The final revenue from WDP shall be based on the Final Well Drilling Cost Report submitted within thirty (30) days after project completion. The basis for determination of cash generated from each completed WDP is the Income and Expense Report submitted by the Cost Accounting Division.

### **Unearned Income from Engineering Study**

The costs for the Water District Financed Technical Services (WDFTS) of LWUA are recorded under Unearned Income from Engineering Study. The final revenue from the technical services shall be based on the final Technical Service Report submitted by LWUA to WD upon completion of the WDFTS. The basis for determination of cash generated from the service rendered is the difference between the collections from the WD and the actual disbursements of LWUA for the service rendered.

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## **3. CASH AND CASH EQUIVALENTS**

This account consists of:

	<b>2008</b>	2007
Cash on hand	<b>33,428,280</b>	50,369,156
Cash in bank – local currency	<b>1,426,081,624</b>	507,124,487
Cash in bank – foreign currency	<b>146,917,191</b>	163,734,990
Short- term investments	<b>44,098,979</b>	40,515,040
	<b>1,650,526,074</b>	761,743,673

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#### 4. ACCOUNTS RECEIVABLE, NET

This account consists of:

	2008	(as restated) 2007
Loans receivables from GOCCs- current	703,043,513	664,573,412
Interest receivables	949,848,686	882,764,403
Receivable from officers and employees	4,885,082	215,538
Loans receivables from LGUs	4,712,582	5,072,122
	1,662,489,863	1,552,625,475
Allowance for doubtful accounts	(615,020,340)	(449,803,149)
	1,047,469,523	1,102,822,326

*Loans receivable from GOCCs* represents the current portion of outstanding long-term loans receivables due from Water Districts and the Rural Waterworks and Sanitation Association (RWSA) aged one year from the balance sheet date.

*Interest receivables* represent receivables from interests earned on currently maturing portion of outstanding loans from Water Districts and the RWSA.

*Receivable from officers and employees* represents receivables from various loans granted in the form of housing assistance, medical and multi-purpose loans.

*Loans receivables from LGUs* represent receivables from interest bearing loans granted to Local Government Units (LGUs).

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#### 5. RECEIVABLES FROM GOVERNMENT AGENCIES

This account consists of:

	2008	2007
Due from GOCCs.	571,652,069	299,113,020
Due from NGAs	28,182,302	28,182,302
	599,834,371	327,295,322.

*Due from GOCCs* pertains to amounts due from the Water Districts for assistance extended to them by the Corporation which are separate and distinct from the project loan and billed on open account. These include expenses incurred in relation to the implementation of projects such as travel expenses of LWUA resident engineers, technical assistance, application, fee, commitment charges, etc.

*Due from NGAs* account pertains to the advances made to the Bureau of Treasury (BTr) for the debt servicing of the Corporation's foreign loans. An offsetting arrangement was earlier approved by the Department of Finance to effect immediate

offsetting of these advances against other National Government relent loans to the Corporation.

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## 6. OTHER RECEIVABLES

This account consists of:

	2008	2007
Receivables from well drilling projects	7,600,254	14,722,902
Receivables from engineering studies	1,939,103	1,712,951
Miscellaneous receivables	39,726,136	17,570,486
	<b>49,265,493</b>	34,006,339
Allowance for doubtful accounts	<b>(5,041,472)</b>	(5,387,144)
	<b>44,224,021</b>	28,619,195

*Receivables from well drilling projects* represents the amounts due from the water districts for its well drilling projects undertaken by the Corporation.

*Receivables from engineering studies* represents the amounts due from the water districts for engineering studies undertaken by the Corporation

*Miscellaneous receivables* represents the amounts due from parties which do not fall under any of the other classes of receivables. This includes advances made to contractors as mobilization fees and importation costs paid by LWUA on behalf of the contractors.

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## 7. SUPPLIES INVENTORY

This account consists of:

	2008	2007
Office supplies inventory	965,701	798,281
Medical, dental and laboratory supplies	445,387	617,016
Other supplies inventory	1,681,827	35,476
	<b>3,092,915</b>	1,450,773

The *Office supplies inventory* consists of supplies purchased/held for consumption in the normal course of LWUA operations.

The *Medical, dental and laboratory supplies inventory* consists of drugs and medicines purchased/held for issuance to LWUA officers and employees in need of medical attention.

The *Other supplies inventory* consists of water supply materials still unissued and kept in stock for future use of water districts.

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## 8. PREPAID EXPENSES

This account pertains to payments of insurance premiums of LWUA vehicles and other insurable property, in the amount of P361,809.

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## 9. OTHER CURRENT ASSETS

This account consists of:

	<b>2008</b>	2007
Advances to contractors	<b>41,052,297</b>	39,665,679
Advances to consultant	<b>34,350,935</b>	39,190,777
Advances to water districts	<b>26,567,483</b>	26,567,483
Guarantee Deposits	<b>3,193,195</b>	2,903,328
	<b>105,163,910</b>	108,327,267

*Advances to contractors* account represents prepayments made to contractors for the mobilization of the government water supply projects.

*Advances to consultants* represents prepayments made to consultants for the preparation of detailed engineering designs and construction supervision of water supply projects funded by foreign loans.

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## 10. LONG-TERM RECEIVABLES

This account consists of:

	<b>2008</b>	(as restated) 2007
Loans receivable from Water Districts (WD)	<b>13,954,461,296</b>	15,535,229,971
Restructured receivables – WD	<b>388,897,380</b>	76,761,300
Employees multi purpose loan receivables	<b>138,429,967</b>	117,345,122
Unbilled loans and accounts receivables-WD	<b>96,050,064</b>	149,459,667
Loans receivables - RWSA	<b>62,181,850</b>	62,581,642
	<b>14,640,020,557</b>	15,941,377,702
Current portion	<b>(703,043,513)</b>	(664,573,412)
	<b>13,936,977,044</b>	15,276,804,290
Allowance for bad debts	<b>(1,326,335,146)</b>	(1,188,103,424)
	<b>12,610,641,898</b>	14,088,700,866

*Loans receivable from water districts* comprise of the peso and foreign cost releases to finance the development of various water supply projects in the provincial areas. They bear a graduated interest rates ranging from 8.5% to 15% per annum depending on the amount of the loan with a 26-year repayment period. Special loans, as well as new service connection loans carry a graduated interest rates ranging from 7.5% to 9% per annum.

In an effort to improve its collection performance, the Corporation adopted the following policies:

- Restructuring of water district loans;
- Imposition of a 2% penalty charge on arrears by water districts with restructured accounts;
- Requirement of post-dated checks to cover debt service remittances of water districts requesting for additional loans or financial assistance, those extended with restructuring concessions, and those seeking clearance for outside borrowing;
- Adoption of the first-in, first-out method in the application of debt service payments;
- Submission of the water districts' annual budgets to the Corporation; and
- Take-over of water districts defaulting on debt service payments.

*Unbilled loans and accounts receivable* – *WD* represents project expenditures incurred by LWUA, the billings of which have been deferred pending completion of the contract and acceptance of the project.

*Loans receivable - RWSA* represents receivable from interest bearing long-term loans extended to various electric cooperatives for the development of water supply in the rural.

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## **11. LONG- TERM INVESTMENTS**

The account includes placements in agrarian reform bonds amounting to P396,890,811 in 2008 and P364,635,362 in 2007. The interest rates are aligned with that of the 91-day Treasury Bills and payable within six (6) months from date of issue and every six (6) months thereafter. Ten percent (10%) of the bond's original face value matures every year and paid to the bondholder until the tenth year/maturity date. The increase was the result of purchases made during the year.

## 12. PROPERTY AND EQUIPMENT, NET

The roll forward analysis of this account follows:

	Land Improvement	Building & Improvement	Furniture & Office Equipment	Engineering & Laboratory Equipment	Other Equipment	Total
<b>CY 2008</b>						
<b>Cost</b>						
At January 1	1,664,620	127,247,555	89,206,180	108,180,174	41,493,759	367,792,288
Additions		13,795,211	1,911,083	480,000	7,909,457	24,095,751
Transfers			(104,723)	(308,023)	(968,117)	(1,380,863)
Disposals			(1,958,249)	(1,558,410)	-	(3,516,659)
<b>At December 31</b>	<b>1,664,620</b>	<b>141,042,766</b>	<b>89,054,291</b>	<b>106,793,741</b>	<b>48,435,099</b>	<b>386,990,517</b>
<b>Accumulated Depreciation</b>						
At January 1	-	53,820,635	38,286,290	99,979,113	37,066,306	229,152,344
Depreciation	-	2,296,815	7,606,138	149,608	6,370,903	16,423,464
Disposals	-		(2,053,472)	(1,866,433)	(581,081)	(4,500,986)
<b>At December 31</b>	<b>-</b>	<b>56,117,450</b>	<b>43,838,956</b>	<b>98,262,288</b>	<b>42,856,128</b>	<b>241,074,822</b>
<b>Net Book Value</b>						
<b>At December 31</b>	<b>1,664,620</b>	<b>84,925,316</b>	<b>45,215,335</b>	<b>8,531,453</b>	<b>5,578,971</b>	<b>145,915,695</b>
<b>CY2007</b>						
<b>Cost</b>						
At January 1	1,664,620	61,863,080	71,289,458	108,180,173	43,842,217	286,839,548
Additions	-	65,384,475	17,971,978	-	329,062	83,685,515
Transfers	-	-	(55,255)	-	(19,375)	(74,630)
Disposals	-	-	-	-	(2,658,145)	(2,658,145)
<b>At December 31</b>	<b>1,664,620</b>	<b>127,247,555</b>	<b>89,206,181</b>	<b>108,180,173</b>	<b>41,493,759</b>	<b>367,792,288</b>
<b>Accumulated Depreciation</b>						
At January 1	-	49,790,302	31,266,616	99,915,905	37,497,631	218,470,454
Depreciation	-	4,030,333	7,072,929	63,208	2,361,910	13,528,380
Disposals	-	-	(53,255)	-	(2,793,235)	(2,846,489)
<b>At December 31</b>	<b>-</b>	<b>53,820,635</b>	<b>38,286,290</b>	<b>99,979,113</b>	<b>37,066,306</b>	<b>229,152,344</b>
<b>Net Book Value</b>						
<b>At December 31</b>	<b>1,664,620</b>	<b>73,426,920</b>	<b>50,919,891</b>	<b>8,201,060</b>	<b>4,427,453</b>	<b>138,639,944</b>

## 13. OTHER NON-CURRENT ASSETS

This account consists of:

	2008	2007
Deferred tax assets	141,443,023	35,235,903
Deferred engineering study cost	6,140,302	6,392,338
Restricted funds	8,863,407	8,465,767
Deferred well drilling cost	531,662	531,662
Other deferred charges	14,305,737	13,460,673
	<b>171,284,131</b>	<b>64,086,343</b>

*Deferred tax assets* pertains to prepaid tax arising from certain expenses not currently deductible for income tax purposes pursuant to PAS No. 12.

*Deferred engineering study cost* refers to the expenses incurred in connection with the preparation of project feasibility studies and detailed engineering designs of unbilled on-going projects. The costs of billed projects are eventually transferred to the engineering study expense account.

*Deferred well drilling cost* includes the cost of manpower, travel, materials, rent, gas and oil, repairs and maintenance, and other expenses incurred in connection with in-house well drilling projects. Cost relative to this service is eventually transferred to the well drilling expense account when billed or discontinued.

*Other deferred charges* account is used to record deferred charges other than costs of engineering studies; construction supervision; and well drilling that are held for future billing to various water supply projects.

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#### 14. ACCOUNTS PAYABLE

This account consists of:

	2008	2007
Accounts payable	<b>43,010,178</b>	244,271,043
Interest payable	<b>52,658,858</b>	187,315,747
Notes payable	-	136,800,000
Payable to officers and employees	<b>5,204,186</b>	4,707,789
	<b>100,873,222</b>	573,094,579

The significant decrease in Accounts Payable was due to the payments of currently maturing portion of LWUA's indebtedness related to its regular and current operations, as in payments made to suppliers, officers and employees, including interest payments.

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#### 15. PAYABLES TO GOVERNMENT AGENCIES

This account consists of amounts:

	2008	2007
Due to Government Owned and Controlled Corporations	<b>573,938,743</b>	25,820,742
Due to Bureau of Internal Revenue	<b>13,558,309</b>	192,162,258
	<b>587,497,052</b>	217,983,000

*Due to GOCCs* pertains to collections of loans from Water Districts thru bank credits. The increase pertains to cash deposits representing debt service payments in December, 2008 that was receipted only in January 2009.

*Due to BIR* pertains to the amount of income tax and tax withheld from contractors/suppliers and employees for remittance to the Bureau of Internal Revenue (BIR).

## 16. OTHER CURRENT LIABILITIES

This account consists of:

	2008	2007
Loans payable, current – foreign	430,035,386	403,152,892
Loans payable, current – domestic	191,653,333	200,000,000
Guaranty deposits payable	55,711,410	108,707,954
Other payables	465,460,745	170,491,347
	<b>1,142,860,874</b>	<b>882,352,193</b>

*Guaranty deposits payable* refers to the amount collected or withheld from contractor as 10% retention on contract payments to guarantee performance of the project and are refundable to the contractor.

*Other Payables* consists of the following:

	2008	2007
<ul style="list-style-type: none"> <li>• Liability for Special Fund, which consists of Water Supply and Sanitation Project Dev. Efficiency and Improvement Fund SARO No. D-07-10771</li> </ul>	250,000,000	16,031,058
<ul style="list-style-type: none"> <li>• Subsidy under SARO ROCS -07- 07992, to develop the Water Supply Project on the first District of Zamboanga</li> </ul>	400,000	-
<ul style="list-style-type: none"> <li>• Bidder's Bond deposit, etc.</li> </ul>	3,326,093	-
Sub – total	263,726,093	16,031,058
<ul style="list-style-type: none"> <li>• Depository Liabilities</li> <li>• Trust Liability Provident Fund</li> <li>• Advances by the Bureau of Treasury</li> <li>• Miscellaneous</li> </ul>	160,666,263	116,638,582
	10,642,169	1,449,305
	10,060,275	125,193,79
	20,365,945	23,853,027
	<b>465,460,745</b>	<b>170,491,348</b>

In 2009, the remaining ₱50,000,000 for the WSSPD-EIF was also re-classified to this account under JV No. 02-04-09.

The total Liability for Special Fund of P300 million was released by the Department of Budget and Management (DBM) last December 28, 2007 in the form of government subsidy to LWUA intended to finance the Water Supply and Sanitation Project Development and Efficiency Improvement Fund, (WSSPD EIF). This is pursuant to Republic Act No. 9401, or the General Appropriations Act of Fiscal Year 2007. The entire amount of P300,000,000 was initially treated as Donated Capital in December 27, 2007 since the release shall eventually be treated as equity contributions of the national government to LWUA in the event that its authorized capitalization is increased by law. However, per DBM's Special Allotment Release Order (SARO) dated December 27, 2007, the entire amount of P300,000,000 formed part of the entire subsidy of the National Government to LWUA. Subsequently, LWUA decided that the P300 million would be more appropriately treated as a Trust Liability taken up under the Other Current Liabilities – Other Payable account rather than a Donated Surplus account or rather, as grant or subsidy income as required by Section 6.1.2 of MOF – MOB-COA Joint Circular No. 1 – 82 dated October 31, 1981, because the SARO expressly provides that the entire allotments were to be used solely in financing the seed capital of the WSSPD – EIF.

Additional financial assistance of P10 million was released to LWUA from the President's Social Fund on May 13, 2008 for the development of the Water Supply in Pilar, Siargao Island, Surigao del Norte and P400,000 for the Water Supply Development for the First District of Zamboanga released under SARO No. ROCS -07-07992 dated Jan 9, 2008. Both releases were taken up in this account.

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## 17. LONG-TERM LIABILITIES, NET

This account consists of:

	2008	2007
<b>Loans payable – foreign:</b>		
ADB 1056-PHI – US\$14.06M At 10% per annum payable in 25 annual installments of US\$247,600 starting February 15, 2001, increasing thereafter up to August 15, 2025.	<b>651,644,927</b>	668,518,834
ADB 1057-PHI – US\$2.7M At 10% per annum payable in 20 annual installments of \$101,800 starting February 15, 1995 increasing thereafter up to August 15, 2014.	<b>84,157,015</b>	90,720,833
ADB 1269-PHI – US\$21.1M At interest based on the cost to the bank of such currencies plus spread which ranges from 6.3% to 6.7% per annum payable in 20		

	2008	2007
annual installments of \$733,100 starting March 1, 1999, increasing, thereafter, up to September 1, 2018.	<b>845,400,435</b>	880,505,673
<b>ADB 1472-PHI – US\$45M</b> At 6.79% per annum payable in 20 annual installments of \$848,500 starting March 1, 2002, increasing, up to September 1, 2021.	<b>1,111,073,503</b>	1,143,729,276
<b>ADB 1599 - \$292 T</b> At rate applicable to Republic loan plus the rate of 1% payable in 25 annual installments on May 15 and November 15 in each year.	<b>13,118,922</b>	13,107,569
<b>DANIDA V – DKr95M</b> At 0% interest payable in 17.5 annual installments of DKR5,280,000 starting on April 1, 1992 to October 1, 2009.	<b>46,315,648</b>	94,393,782
<b>IBRD 1710-PHI – US\$16M</b> At 7.9% per annum payable in 14.5 annual installments of \$1,070,000 starting February 15, 1985 to August 15, 1999.		3,873,396
<b>IBRD 2206-PHI – US\$8.061M</b> At 4% per annum payable in 14.5 annual installments of \$167,000 starting June 1, 1988 to December 1, 2002		138,347,306
<b>IDA 920-PHI – US\$14M</b> At 0.75% service charge per annum payable in 40.5 annual installments of \$96,086 starting August 15, 1989, increasing thereafter up to February 15, 2029.	<b>53,614,192</b>	60,993,597
<b>OECD PH-P82 – Y.945B</b> At 8.7% per annum payable in 20 annual principal payments of Y46,110,000 starting January 20, 1998 to January 20, 2018.	<b>112,119,793</b>	120,904,750
<b>OECD PH-P124 – Y.789B</b> At 9% per annum payable in 20.5 annual principal payments of Y38,468,000 starting April 20, 2000 to April 20, 2022.	<b>65,138,439</b>	82,001,505
<b>OECD PH-P149 – Y6.212B</b> At 4.9% per annum payable in 20.5 annual principal installments of Y151,520,000 starting December 20, 2004 and increasing thereafter up to December 20, 2024.	<b>1,028,740,493</b>	1,082,137,558

	2008	2007
OECF PH-P154 – Y6.131B At 2.5%, Principal (I) and 2.1%, Principal (II) per annum payable in 20 annual installments of Y149,600,000 on August 20, 2005 and Y299,070,000 from February 20, 2006 through August 20, 2025.	<b>906,291,515</b>	943,406,410
OECF PH-P181 – Y7.228B At 2.5%, Principal (I) and 2.1%, Principal (II) per annum payable in 20.5 annual installments of Y176,320,000 on March 20, 2007 and Y352,584,000 through March 20, 2027.	<b>2,014,469,585</b>	2,099,922,544
Australian Aid – US\$14.8M At 2.25% per annum payable in 9.5 annual installments of \$740,000 starting July 15, 2001 to January 15, 2011.	<b>220,976,281</b>	288,532,966
French Protocol – FF24M At 3% Treasury Loan per annum payable in 30 annual installments of FF1,313,933.60 starting December 31, 1990 to December 31, 2020.	<b>94,708,144</b>	101,080,112
USAID 033 – US\$15M At 2% per annum from 1975 to 1985, 3%, thereafter, payable in 30 annual installments of \$286,330.88 starting July 17, 1985 and increasing, thereafter, up to July 17, 2015.	<b>258,560,653</b>	282,475,307
USAID 042 – US\$ 20M At 2% per annum from 1977 to 1987, 3% thereafter payable in 30 annual installments of \$305,410.85 starting April 13, 1987 and increasing, thereafter, up to April 13, 2017.	<b>330,120,843</b>	355,732,454
KFW PTWSP I & II – Euro 14.700M German Financial Cooperation with the Philippines aimed to upgrade the WSP of about 130 WDs	<b>951,732,805</b>	947,388,824
<b>Total Loans payable - foreign</b>	<b>8,788,183,193</b>	9,397,772,696
Current portion	<b>(430,035,386)</b>	(403,152,892)
<b>Loans Payable – local</b>	<b>8,358,147,807</b>	8,994,619,804
	<b>608,280,000</b>	733,266,667
	<b>8,966,427,807</b>	9,727,886,471

*Loans payable – foreign* represents loans received through subsidiary loan agreements with the National Government from foreign creditors mainly to finance, on a long-term basis, the development of various water systems in different cities, municipalities and rural areas of the country.

*Loans payable – local* includes drawings against the P1 billion Term Loan from the Land Bank of the Philippines (LBP). The loan is payable in 20 equal quarterly installments commencing after the 9<sup>th</sup> quarter from initial drawdown date with interest at prevailing prime lending rate plus 2% spread, subject to quarterly re-pricing.

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## 18. DEFERRED CREDITS

This account consists of:

	<b>2008</b>	2007
Interest earned but not collected	<b>384,317,437</b>	220,189,876
Unearned income from well drilling contracts	<b>7,329,779</b>	15,682,991
Deferred income from housing loans	<b>13,990,591</b>	14,528,649
Unearned income from engineering study	<b>4,199,396</b>	3,154,606
	<b>409,837,203</b>	253,556,122

The account Interest Earned but not collected pertains to uncollected past due interests of various water districts whose terms have been modified in accordance with the restructuring agreement.

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## 19. CAPITAL STOCK

The Corporation's authorized capital stock of 12,500,000 shares at P200 par value or P2.5 billion has been fully subscribed and paid for by the National Government as of 1993. As early as February of 2008, the proposed amendments to PD 198 had already been approved on the third and final reading at the Lower House as contained in House Bill No. 4114 with Representative Eric Singson as the principal author and all the members of the House Committee on Public Works as co-authors.

In June 2008, LWUA bills in the Senate filed by Senators Estrada, Revilla, Enrile, Zubiri, Lapid and Legarda had been approved on Committee Level by Senate Committee on Public Works chaired by Senator Revilla with a Substitute Senate Bill No. 2486 under Committee Report No. 2486. The same has already been sponsored on the Senate floor by Senator Revilla last December 2008 and is now being readied for plenary discussion/debate (interpellation) in March 2009. Thereafter, the bicameral discussion of both the house and Senate Bills for legislation and the signing into law by Her Excellency, Gloria Macapagal Arroyo, President of this Republic.

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**20. DONATED SURPLUS**

This account represents subsidy support from the National Government and the cost of completed water supply projects funded out of the proceeds of grants from the National Government loaned out to water districts. Pursuant to the General Appropriations Act, said releases may be treated as equity contribution of the National Government to the Corporation in the event that its authorized capitalization is increased by law.

Subsidy of P310.4M received by LWUA in 2007 to 2008 was recorded as Trust Liabilities - Other Payables (See Note 16).

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**21. MISCELLANEOUS SURPLUS**

This account represents the cost of Levels II and III water supply projects constructed by the Department of Public Works and Highways (DPWH) and turned-over to the Rural Waterworks Development Corporation (RWDC) pursuant to Executive Order No. 124 issued in January 1987 and for documentation and collection pursuant to a Memorandum of Agreement dated January 27, 1983. It also includes the net assets of LWUA as a national government agency prior to its incorporation in 1975.

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**22. PRIOR YEARS' ADJUSTMENTS**

The adjustments pertain to the accounts of prior period, as well as the corresponding tax effect on such other prior period adjustments.

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**23. MISCELLANEOUS INCOME**

Details of this account are as follows:

	<b>2008</b>	2007
Pre-termination fees	<b>34,378,650</b>	-
Billed foreign currency adjustments	<b>6,602,617</b>	83,785,901
Miscellaneous fees from reproduction, xeroxing, sale of car stickers, bacteriological testing/application/processing fees, basketball court rentals, etc.	<b>6,334,237</b>	5,662,594
	<b>47,615,504</b>	89,448,495

*Pre-termination fees* represents income from loan accounts of Water Districts which accelerated their payments in full.

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**24. OPERATING EXPENSES**

This account consists of:

	2008	2007
<b>PERSONAL SERVICES</b>		
Other bonuses and allowances	247,986,371	161,714,998
Salaries and wages – Regular	146,209,684	132,395,648
Additional compensation (ADCOM)	88,854,864	87,658,607
Other personnel benefits	28,893,976	32,732,479
Life and retirement insurance contributions	16,965,420	15,449,740
Personnel Economic Relief Allowance (PERA)	14,853,315	15,191,104
RATA	11,298,469	11,536,874
Clothing/uniform allowance	3,407,625	532,590
PHILHEALTH contributions	1,551,812	1,673,925
PAG-IBIG contributions	809,592	691,000
ECC contributions	739,870	746,480
Terminal leave benefits	515,198	470,803
Honoraria	72,276	49,000
	<b>562,158,472</b>	<b>460,843,248</b>
<b>MAINTENANCE AND OPERATING EXPENSES</b>		
Bad debts	303,448,913	592,890,243
Professional services	27,177,917	43,219,586
Confidential, intelligence, extraordinary and miscellaneous expenses	26,586,469	29,480,461
Supplies and materials expenses	15,898,794	6,957,253
Utility expenses	14,597,509	11,815,503
Depreciation	13,486,872	13,414,667
Traveling expenses	11,507,284	10,844,092
Subsidies and donations	10,289,009	2,491,470
Taxes, insurance premiums and other fees	9,163,905	8,665,333
Repairs and maintenance	7,353,972	7,875,971
Advertising expenses	3,011,266	3,331,319
Communication expenses	2,243,486	2,734,311
Training and scholarship expenses	1,395,020	2,299,271
Rent expenses	767,994	570,569
Subscription expenses	87,771	200,761
Other maintenance and operating expenses	1,470,584	1,308,738
	<b>448,486,765</b>	<b>738,099,548</b>
	<b>1,010,645,237</b>	<b>1,198,942,796</b>

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**25. FINANCIAL EXPENSES**

This account consists of :

	2008	2007
Interest Expense	398,968,647	508,108,730
Bank Charges	324,662	1,835,544
	<b>399,293,309</b>	<b>509,944,274</b>

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**26. INCOME TAX EXPENSE**

Components of income taxes are as follows:

	2008	2007
Current tax	299,351,777	228,523,306
Income tax benefit	(106,207,119)	(207,511,585)
Deferred tax	-	35,918,666
	<b>193,144,658</b>	<b>56,930,387</b>

Numerical reconciliation between tax expense and the product of accounting income multiplied by the tax rate of 35% in 2008 are as follows:

	2008	2007
Accounting Income	561,559,556	180,362,659
Tax expense at 35%	196,545,845	63,126,930
Tax effect of non-deductible interest expense	2,431,245	4,400,255
Tax effect on non-taxable interest income	(5,832,432)	(10,596,798)
	<b>193,144,658</b>	<b>56,930,387</b>

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**27. RATIONALIZATION PROGRAM**

The Rationalization Program pertains to the downsizing of LWUA personnel and was partially implemented in 2006. This program was mandated under Executive Orders 279 and 421 dated February 2, 2004 and April 13, 2005, respectively. A total of 24 employees were able to avail of the retirement package. However, due to a restraining

order from the Regional Trial Court (RTC), the implementation was indefinitely put on hold pending the lifting of the said restraining order.

At present, there is an ongoing hearing on the permanent injunction at the Quezon City RTC.

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**28. AUTHORIZATION TO ISSUE FINANCIAL STATEMENTS**

The Board of Trustees, as per Resolution No. 55 Series of 2009, and adopted on March 24, 2009, authorized the issuance of LWUA's Calendar Year 2008 Financial Statements, in compliance with the Philippine Accounting Standard No. 10.

## COMMENTS AND OBSERVATIONS

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1. There was a difference of P539.93 million between the general ledger balance of Long-term receivables and the total of all the subsidiary ledger balances for the water districts. Moreover, there was a net variance of P3.92 million between the recorded balances of Long-term loans receivable and the amount confirmed by various water districts (WDs), thereby, casting doubts on the accuracy and existence of the reported account balance as of December 31, 2008.

Comparison of the general ledger for Loans Receivable – WD account balance of P13,954,461,296 with the subsidiary ledger balances totaling to P14,494,390,263 for all the Water Districts in nine (9) areas showed a difference of P539,928,967 computed as follows:

General Ledger balance	P13,954,461,295.62
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Subsidiary Ledger balance per area	
Area 1	P2,905,241,313.00
Area 2	2,088,554,354.37
Area 3	1,408,725,064.49
Area 4	1,082,734,346.06
Area 5	2,841,176,939.60
Area 6	791,339,348.30
Area 7	1,672,675,147.75
Area 8	901,582,703.64
Area 9	802,361,045.48
<hr/>	
	14,494,390,262.69
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<b>Difference</b>	<b>(P 539,928,967.07)</b>
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Section 403 of the Government Accounting and Auditing Manual (GAAM), Volume II, provides that the subsidiary ledger is a book of final entry containing the details and breakdowns of the balances of controlling accounts appearing in the general ledger. The above difference between the general and subsidiary ledgers is an indication that the recorded account balances of Long-term Loans Receivables account is not accurate.

In January 2009, confirmation requests were sent to water districts with recorded outstanding loans receivable balance of at least P1 million. Of the 418 water districts with the total receivable of P14,482,801,467 which are eligible for confirmation, Management sent confirmation requests to 223 water districts with a total receivable of P7,560,601,818. However, only 23% or 50 water districts with the total account of P1,202,383,554 responded.

We also noted that 100% confirmation requests were sent to Area 6 consisting of 34 water districts. However, only 35% or twelve (12) water districts responded to the request. Meanwhile, for Area 5 with 56 Water Districts, confirmation request was sent to Metro Iloilo WD only.

Out of the 50 water districts which responded, 68% or 34 water districts with the total account of P1,004,409,368 confirmed the accuracy of the recorded loan balances. of The confirmed loan balances of the remaining 32% or 16 water districts with the total account of P197,974,186 are higher by a net amount of P3,924,729 than the LWUA book balances, summarized as follows:

Water Districts	No. of WDs	Balance		
		Per Books	Confirmed	Difference
<b>Account with positive variance</b>	<b>10</b>	<b>P102,314,318.77</b>	<b>P95,193,223.72</b>	<b>P7,121,095.05</b>
Mapandan (Area 1)		23,513,399.19	17,942,715.24	5,570,683.95
Pikit (Area 8)		8,783,497.29	7,628,883.25	1,154,614.04
Concepcion (Area 2)		31,450,144.90	31,321,861.10	128,283.80
Bocaue (Area 2)		11,712,351.87	11,595,017.69	117,334.18
Jaro (Area 6)		4,530,553.91	4,470,167.91	60,386.00
Talibon (Area 6)		6,816,860.97	6,757,687.25	59,173.72
Bato, Catanduanes (Area 4)		2,838,990.42	2,819,926.02	19,064.40
Sulat (Area 6)		3,105,555.31	3,094,215.58	11,339.73
Toledo City (Area 6)		3,329,702.23	3,329,500.00	202.23
Dingle-Pototan (Area 5)		6,233,262.68	6,233,249.68	13.00
<b>With Negative Variance</b>	<b>6</b>	<b>99,584,295.85</b>	<b>102,780,662.25</b>	<b>(3,196,366.40)</b>
Pandan, Antique (Area 5)		4,914,769.31	7,700,769.31	(2,786,000.00)
Paracale (Area 4)		21,287,166.43	21,655,677.70	(368,511.27)
Kabankalan (Area 5)		,936,899.54	5,976,197.54	(39,298.00)
Manaoag (Area 1)		23,314,318.19	23,316,774.34	(2,456.15)
Silay City (Area 5)		34,983,053.31	34,983,124.29	(70.98)
Vigan Metro (Area 1)		9,148,089.07	9,148,119.07	(30.00)
	<b>16</b>	<b>P201,898,614.62</b>	<b>P197,973,885.97</b>	<b>P3,924,728.65</b>

The bulk of the positive variances of the 10 WDs include the accounts of Mapandan, Pikit, Concepcion and Bocaue while those of the 6 WDs with negative variances include Pandan and Paracale Water Districts.

Since there were only 50 WDs or 23% of the total confirmation letters sent responded to the confirmation, there is the possibility that the variance could be more than the amount presented above.

Further, analysis of the LWUA recorded loan balances and the confirmed amounts revealed some of the causes of the variances as follows:

- a) Capitalized interest amounting to P3,503,142.56 was recorded in January 2009 and the balance was reconciled in February 2009 at the books of Mapandan Water District. Loan availed under L.A. No. 4-2467 in the amount of P1,306,000 was recorded at P4,092,000 in the books of Pandan Water District
- b) The amount of loan availment recorded by Pikit WD was based on the amortization schedule in the amount of P2,117,302.61 instead P3,271,916.65 per LWUA records.

- c) Loan availment under LA No. 4-2431 for P3,382,228.50 was recorded by LWUA. However, the amount of the check was P3,264,871 as recorded by Bocaue WD.
- d) The Talibon WD confirmed that their Loan Account No. 3-067 in the amount of P59,173.72 was already paid during the year 1990 but the balance still exists in the LWUA books.

We recommended that the general ledger balance of the Long-Term Loans Receivable be periodically reconciled with the totals of the subsidiary ledger balances.

We also reiterated our recommendation in the previous Annual Audit Reports that a thorough reconciliation of the books of LWUA and the concerned WDs be made to bring the two records in agreement. The result of the reconciliation process should be submitted to this office for validation.

Management has taken note of the herein audit observation and recommendations and provided the following comments:

*On the issue of unreconciled Long-term receivable balances:*

A 100% reconciled balances cannot be attained due primarily to the timing differences in the recording process, such as:

- a) Billings are recorded by LWUA ahead of the water districts; and
- b) Payments are recorded by the water districts ahead of LWUA.

With the continuing reconciliation effort being exerted by both the water districts and LWUA, they hoped that the reported reconciling difference of P3.924 million will be minimized if not totally eradicated.

On the other hand, management assured that the subsidiary ledger of Long-term loans receivable with the correct balances will be immediately submitted to COA.

**2. A net variance of P6.652 million was noted between the reported balances of Cash in Bank accounts (Local and Foreign Currency) in the books and in the bank statement, thereby, casting doubt on the reliability and completeness of the recorded/reported cash transactions and balances as of year end.**

Verification of subsidiary records and documents for the cash in bank accounts and comparison of the reported balances of Cash in Bank (Local and Foreign Currency) accounts against the amounts confirmed by the Land Bank of the Philippines (LBP), Philippine National Bank (PNB), Development Bank of the Philippines (DBP) and Philippine Veterans Bank (PVB) showed a net variance of P6,652,648 (negative variance of P15,729,443 for the Cash in Bank – Local Currency account and a positive variance of P22,382,091 for the Cash in Bank – Foreign Currency account), computed and summarized as follows:

	Per Book	Per Bank	Variance
<b>Cash in Bank – Local Currency</b>			
Recorded in the books and confirmed by the Bank	1,424,141,876	1,494,086,477	(69,944,602)
Recorded in the books but not confirmed by the bank	1,939,748	-	1,939,748
Not recorded in the books but included In the bank confirmation	-	960,360	(960,360)
Balance as recorded/confirmed	1,426,081,624	1,495,046,837	(68,965,214)
Deposit for this account recorded under Cash in Bank –Foreign Currency Account	53,979,873	-	53,979,873
<b>Balance as adjusted</b>	<b>1,480,061,497</b>	<b>1,495,046,837</b>	<b>(14,985,341)</b>
<b>Cash in Bank- Foreign Currency</b>			
Recorded in the books and confirmed by the Bank	143,306,269	66,021,319	77,284,950
Not recorded in the books but included In the bank confirmation	-	5,033,908	(5,033,908)
Recorded in the books but not confirmed by the bank	3,610,922	-	3,610,922
<b>Balance as recorded/confirmed</b>	<b>146,917,191</b>	<b>71,055,227</b>	<b>75,861,964.00</b>
Deposit for Cash in Bank –Local Currency Account recorded under this account	(53,979,873)	-	(53,979,873)
<b>Balance as adjusted</b>	<b>92,937,318</b>	<b>71,055,227</b>	<b>21,882,091</b>
<b>Cash-Other Banks-Operating Budget</b>			
Eight (8) encashed checks included in the Summary of Unreleased Checks reverted back to Cash-Other Banks-Current Account	(244,103)		(244,103)
	<b>1,572,754,712</b>	<b>1,566,102,064</b>	<b>6,652,647</b>

We noted some of the causes of the discrepancies, as follows:

For Cash in Bank-Local Currency

- Some of the differences noted in the Local Current/Savings Depository accounts were due to items requiring adjustments in the LWUA books worth at least P85 million, such as unreleased checks, bank charges, bank interests and other bank transactions, as indicated in the bank statements submitted but not recorded in the books. It is worth mentioning that the same audit observation was already reported in the previous AAR.

For Cash in Bank-Foreign Currency

- LBP Savings Account for SJDM Sub-Project shows a book balance of P3,620,071 as of December 31, 2008, while the results of the bank confirmation reveal that the account was already closed as of August 8, 2006. As of this time, this account was not adjusted in the books.

- LBP Savings Account for LWUA/PCWSP JA reflects a balance of Y32,830,916 or P17,144,633 on March 31, 2008 but per books of LWUA, the account was not updated and has a reported balance of P31,957,288 as of December 31, 2008.

As observed in previous year, book balances of both the local and foreign currency accounts were not regularly reconciled with the bank balances. Likewise, expenses incurred for projects under the KFW Loan Package are not yet recorded in the books due to incomplete documents. Thus, Cashbook balance is overstated by P48 million.

Hence, the reliability of the Cash in Bank balance is not assured.

We recommended for the following courses of action:

Management should reconcile the book balances of the Cash – Local and Foreign Currency Accounts with the bank balances as of December 31, 2008 to properly account and report the correct cash in bank balances.

Monthly bank reconciliation statements for all LWUA bank current and savings account deposits for local and foreign currency accounts should also be regularly submitted to COA. Items in the bank reconciliation statements that were long outstanding should be given immediate attention and should be adjusted in the books with their complete supporting documents attached for verification purposes.

Cash in bank accounts that are in local currency should be properly classified under Cash in Bank – Local Currency. Necessary adjustment(s) should be made to correct the over-/understatement of cash and other affected account.

Management has taken note of the herein audit findings that the reported Cash in Bank balances differ from the confirmations made by the Land Bank of the Philippines, the Philippine Veterans Bank and the Philippine National Bank.

They also explained that very frequently, there are items in the LWUA books which do not appear on the bank records as of the same date and less frequently, there are items in the bank records which do not appear in LWUA books. In the light of the foregoing, it becomes necessary to prepare bank reconciliation. For ready reference, xerox copies of the Bank Reconciliation Statements were forwarded which were earlier submitted to the Office of the Auditor showing in detail the reconciling items noted during the process.

It was already discussed in the AOM that some of the difference noted were due to items requiring adjustments in the LWUA books as per bank statements submitted, such as bank charges, bank interests, and other bank transactions not recorded in the books. However, the Bank Reconciliation Statements shows some unrecorded transactions that occurred as early as CY 2005.

We reiterated our recommendation that items in the bank reconciliation statements that were long outstanding be given immediate attention and be adjusted in the books with their complete supporting documents attached for verification purposes.

3. The balance of Loans Payable–Foreign recorded in the LWUA books and as confirmed by various foreign lending institutions showed a net variance of P666.54 million. Consequently, the accuracy of the reported balance of Loans payable – Foreign is not assured.

Comparison of the balances of Loans Payable–Foreign recorded in the LWUA books with the balances confirmed by three (3) foreign lending institutions showed a net variance of P666,544,702.76, the Foreign Banks’ total confirmed amount of P5,798,651,525.20 being greater than the LWUA reported balance of P5,132,106,822.44, as shown below.

Comparison in original currency

Loan No.	Currency	Per Books (Original Currency)	Per Bank Confirmation (Original Currency)	Difference (Orig. Currency)
JBIC 181	yen	3,730,428,063	3,810,593,000	(80,164,937)
JBIC 82	Yen	436,866,765	438,045,000	(1,178,235)
JBIC124	yen	519,318,000	519,318,000	none
JBIC 149	Yen	1,797,953,964	1,816,608,000	(18,654,036)
JBIC 154	Yen	1,581,460,256	1,589,942,000	(8,481,744)
IDA 920	US\$	5,208,848	11,818,625	(6,609,777)
KFW	euro	14,635,301	14,635,301	none

Comparison in Philippine Peso

Loan No.	Per LWUA Books (Philippine Peso) A	Per Bank Confirmation (Philippine Peso) B	Difference (Philippine Peso) A – B
JBIC 181	P2,014,469,584.60	P1,989,510,605.30	P 24,958,979.30
JBIC 82	112,119,793.39	228,703,294.50	(116,583,501.11)
JBIC 124	65,138,439.36	271,135,927.80	(205,997,488.44)
JBIC 149	1,028,740,493.23	948,451,036.80	80,289,456.43
JBIC 154	906,291,515.16	830,108,718.20	76,182,796.96
IDA 920	53,614,192.05	561,207,405.28	(507,593,213.23)
KFW	951,732,804.65	969,534,537.32	(17,801,732.67)
	<b>P5,132,106,822.44</b>	<b>P5,798,651,525.20</b>	<b>(P666,544,702.76)</b>

We confirmed the above outstanding balances of Loans Payable-Foreign taken up under the account Long-term liabilities with eight (8) foreign lending institutions. However, only three (3) creditors replied, namely, Japan Bank for International Cooperation (JBIC),

International Bank for Reconstruction and Development (IBRD) and Kreditanstalt für Wiederaufbau (KfW). These Banks confirmed the outstanding loan balances in original currencies: yen, euro and US\$.

The said balances were converted using the Bangko Sentral ng Pilipinas (BSP) reference rates of December 24, 2008, this being the latest available reference rates circularized in a newspaper of general circulation.

The difference noted between the results of foreign banks' confirmation and the balances per books casts doubt on the accuracy and completeness of Loans Payable-Foreign account.

We recommended that Management should reconcile the balance of the Loans Payable-Foreign per books against the balance/s confirmed by the different foreign lending institutions; and to secure records of the loans from the respective creditor-banks including those who have not yet confirmed their accounts to facilitate reconciliation and to ascertain the accuracy of the loan.

Management has taken note of the herein audit findings and recommendations relative to LWUA' existing foreign loans accounts.

On the reported discrepancies between the balances per Corporation's books and those of the lender-banks, they assured that the Office of the Auditor will be provided with the results of the on-going data reconciliation being conducted by the Accounting Department.

Management's initial verification disclosed that discrepancies noted were the results of the timing differences in the recording process. The details of these reconciling items will be presented in the Loans Payable Accounts Reconciliation Statement to be submitted to COA upon receipt of Reports from the Lender-Banks.

**4. Comparison of the General Ledger balances of various Supplies Inventory against the Inventory Reports of the Property Control Division (PCD) and the Medical and Dental Division showed a net difference of P115,913. Moreover, materials and supplies consumed for the month of April 2008 in the total amount of P238,400 were not recorded in the books, thereby, understating expenses and overstating income and inventory by the same amount.**

Comparison of the General Ledger balances as of December 2008 of the Materials and Supplies Inventory, Computer Supplies Inventory and Medical and Dental Supplies Inventory accounts against the Inventory Reports of the Property Control and the Medical and Dental Divisions showed the differences as follows:

	<b>Materials/ Supplies</b>	<b>Computer Supplies</b>	<b>Medical/ Dental</b>
General Ledger Balance	P278,624.39	P687,076.83	P445,387.47
Per Inventory Report	670,783.39	336,421.18	287,971.12
<b>Difference</b>	<b>(P392,159.00)</b>	<b>P350,655.65</b>	<b>P157,416.35</b>

Further analysis of the accounts revealed that materials and supplies and computer supplies consumption for the month of April 2008 in the amounts of P91,880 and P146,520, respectively, were not recorded in the books. In effect, expenses were understated, assets were overstated and the corresponding income was also overstated by P238,400.

The Accounting Department should reconcile the differences noted between the Inventory Reports and the General Ledger balances of Materials and Supplies Inventory, Computer Supplies Inventory and Medical and Dental Supplies Inventory as of December 31, 2008. Appropriate adjustments should be made on the understated supplies expenses, overstated Materials and Supplies and Computer Supplies Inventory.

Management has taken note of the herein audit findings and recommendations.

As recommended, a thorough reconciliation is being conducted so that the reported differences between the General Ledgers and the Inventory Reports can be identified for possible book adjustments.

**5. Advances to Water Districts worth P 2.3 million remain dormant for more than five (5) years.**

The Advances to Water District account as of December 31, 2008 amounted to P26,567,482.66 which includes releases of funds to the different water district for earthquake rehabilitation and to defray take-over expenses.

Analysis, however, showed that advances to fifteen (15) Water Districts amounting to P2,348,182.51 remain dormant for ten (10) to fifteen (15) years, as follows:

	<b>Water Districts</b>	<b>Purpose</b>	<b>Amount</b>
1	Agoo, La Union	Earthquake Rehab Fund	P 1,905.85
2	Bacolor, Pampanga	Earthquake Rehab Fund	22,760.38
3	Baguio City	Earthquake Rehab Fund	450,827.08
4	Buenavista, Iloilo	Turn-over Fund	252,862.76
5	Camarines Norte	Take-over Fund	10,000.00
6	Dagupan City	Earthquake Rehab Fund	472,956.46
7	Dingras, Ilocos Norte	Earthquake Rehab Fund	34,248.00
8	Mabalacat, Pampanga	Earthquake Rehab Fund	265,244.83
9	Moncada, Tarlac	Earthquake Rehab Fund	425,247.83
10	Olongapo City	Pinatubo Rehab Fund	239,984.76
11	PMA Earthquake Rehab Project	Earthquake Rehab Fund	1,141.26
12	Rosario, La union	Earthquake Rehab Fund	5,976.25
13	San Fernando, Pampanga	Earthquake Rehab Fund	131,023.75
14	San Ildefonso	LWUA grant	20,000.00
15	Subic, Zambales	Pinatubo Rehab Fund	14,003.30
<b>Total</b>			<b>P2,348,182.51</b>

We also noted that the purpose of these advances had already been served. Sec. 89 of PD 1445, the State Audit Code of the Philippines, states that: "A Cash Advance shall be reported on and liquidated as soon as the purpose for which it was given has been served."

Furthermore, advances to the following seven (7) water districts totaling P24,219,300.15 for the rehabilitation of projects damaged by typhoon Reming remain unliquidated since their release in April and June 2007.

<b>Water Districts</b>		<b>Amount</b>
1	Baao, Camarines Norte WD	P 1,923,000.00
2	Camalig, Albay WD	2,880,000.00
3	Daraga, Albay WD	5,014,300.15
4	Legaspi City WD	6,240,000.00
5	Ligao-Oas, Albay WD	3,840,000.00
6	Pili, Camarines Norte WD	1,442,000.00
7	Tabacco, Albay WD	2,880,000.00
<b>Total</b>		<b>P24,219,300.15</b>

The non-liquidation of advances would adversely affect the Other Current Assets account and the corresponding Expense account, and ultimately, the Equity account.

The Administration should adopt the following recommendations:

- Ensure proper liquidation of all advances in accordance with the rules and regulation prescribed under COA Circular No. 97-002.
- Exert effort to require the concerned water district to liquidate their respective advances.
- Facilitate the immediate processing of liquidation vouchers submitted by concerned water district in order to update their accountability.

Management explained that the probable reason for the dormant accounts is the failure on the part of the Resident Engineer to submit the necessary liquidation documents for recording purposes.

Demand for full liquidation of the subject cash advances were officially communicated to the Resident Engineers concerned.

6. **Despite the issuance of prior year's audit observations on past due accounts receivables, P10.15 million worth of Accounts Receivables remained outstanding in the books. These receivables were aged ten (10) to twenty seven (27) years and the possibility of collecting these receivables is already remote.**

Verification and analysis of the financial statements of LWUA as of December 31, 2008 and December 31, 2007 disclosed that the Accounts Receivables included, among others, the following sub-accounts totalling P178.2 million and P135.1 million, respectively:

	2008	2007	Amount Increase (Decrease)
a. Receivable - Miscellaneous	P 39,544,033.02	P 17,570,486.00	P21,973,547.02
b. Multi-purpose Loan	137,539,730.05	116,454,885.00	21,084,845.05
c. Housing Assistance Loan Fund	890,237.00	890,237.00	-
d. Due from Officers and Employees-Medical Loan	247,180.39	215,538.00	31,642.39
	<b>P178,221,180.46</b>	<b>P135,131,146.00</b>	<b>P43,090,034.46</b>

The possibility of collecting P10,149,500.57 of the above receivables is already remote.

Consider the following:

a. Receivables – Miscellaneous - P 4,908,140.09

This is a reiteration of previous years' audit observations that the account includes unliquidated cash advances of LWUA officials and employees who were already separated from the service due to various reasons. Some have already retired/resigned while others could no longer be located as their whereabouts were unknown. But there were others who are still in active service.

Further, it was also noted that the cash advance includes payments which should be appropriately charged to some other accounts, such as foreign travel expenses of officials and employees, and medical and discretionary expenses.

For CY 2008, it was again noted that Receivables-Miscellaneous in the amount of P4,908,140.09 still remained outstanding for ten (10) to twenty seven (27) years already, thereby casting doubt on the collectibility of these accounts, as well as the accuracy of the account balance. Moreover, receivables worth P1,073,977.48 were due from LWUA officials and employees who were already separated, deceased or had expired-term and only receivables worth P28,148.44 were due from LWUA officials and employees who are still in active service. The remaining balance of P3,806,014.17 comprises receivables from cooperatives and other institutions whose accounts were absorbed by LWUA when Rural Waterworks Development Corporation (RWDC) was abolished.

b. Multi – Purpose Loan - P4,330,567.32

As discussed in prior year's Audit Observations Memorandum, the LWUA Multi-Purpose Loan Program is a welfare benefit which aims to assist eligible LWUA officials and employees to acquire a four-wheel motor vehicle or residential house and/or lot.

For violation of any provision of the loan contract, its Implementing Rules and Regulations, and/or provisions of mortgage contracts, the borrower shall be considered ipso facto in default without further notice and the balance of the loan shall become immediately due and demandable. In addition, LWUA may consider

the violation thereof as an administrative offense analogous to violation of reasonable office rules and regulations.

Notwithstanding the issuance of prior year's AOM, only P1.4 million was collected from retired, separated, dismissed, AWOL and deceased employees/member of the Board of Trustees leaving a balance of P3,297,325.66 that remained uncollected as of December 31, 2008. Collections was mostly in the form of offsetting the Multi-Purpose Loan against the COLA claims of such employees in January 2008 (JV No. 01-68-08). The Multi-Purpose Loan account worth P3,297,325.66 was due from retired, separated, dismissed, AWOL and deceased LWUA employees and remained uncollected in the book as of December 31, 2008.

There were also loans worth P1,572,614.12 from LWUA employees who are still in active service but only P1,529.88 was collected for the whole year of 2008 and P538,115.58 was offset against their COLA claims, leaving a balance of P1,033,241.66.

Further verification disclosed that loans granted to some of these LWUA officials and employees already exceeded the repayment period of ten (10) years for employees and the length of their tenure but not exceeding five (5) years for the Board of Trustees.

We noted that there were Multi-Purpose Loans Receivables due from four (4) members of the LWUA Board of Trustees whose term of tenure were already served, or were shortened by the replacement of newly-appointed member Board of Trustees. They are, therefore, required to pay their loans upon completion of their tenure in accordance with LWUA Resolution No. 119 series of 1998 which requires that:

“For members of the Board of Trustees, the repayment period shall be length of their tenure but not exceeding five (5) years.”

c. Housing Assistance Loan Fund - P890,236.69

As in previous year's AOM, analysis of Loans Receivable – Housing Assistance Loan Fund account disclosed that the total receivables of P890,236.69, still remained uncollected in the book for more than ten (10) years as of December 31, 2008.

These loans were reportedly granted to officers and employees who were already separated from the service due to various reasons, such as resignation, termination, expired term of office and dismissal while others were on absence without leave status. Demand letters were already sent to these officers and employees but yielded a negative result, inasmuch as most of their whereabouts were already unknown.

Further verification disclosed that loans granted to some of these officers and employees already exceeded the repayment period of ten (10) years for employees and the length of their tenure but not exceeding five (5) years for the Board of Trustees.

In April 2008, management explained that loans in the amount of P186,146.56 shall be deducted from COLA claims of the separated LWUA employees while P11,700.16 was fully paid in January 2008. However, upon verification, no payment or deductions from COLA claims had been made.

Since the above receivables remained uncollected for more than ten (10) years and are believed to be of doubtful collectibility, this would affect the fair presentation of the accounts in the financial statements.

d. Due from Officers and Employees – Medical - P20,556.47

Despite the issuance of AOM No. 2007-07, the repayment scheme and guarantee included in the Medical Loan Plan Guidelines designed to ensure the full repayment of the loan, was not strictly observed by management. It resulted in non-collection of unpaid balances of employees who had retired, resigned, died, and dropped from the rolls in the total amount of P20, 556.47. We have also noted that the repayment period of the loans of these employees exceeded the allowed repayment period which is twenty four (24) equal monthly installments.

The following courses of action are recommended:

Extra effort to require the concerned employees to liquidate their long outstanding cash advances, especially those who are still in active service should be undertaken by management;

Management, through the Legal Department, should institute legal action, if necessary, to strictly enforce sanctions, such as foreclosure of collaterals of separated employees as provided for in the Implementing Rules and Regulations and in the provisions of the loans/mortgage contracts;

There is also a need to strictly implement the guidelines in the repayment of the medical loans extended to officials and employees without prejudices to taking course of action against the borrowers in default, as well as their co-makers; and

Management should make the necessary adjustments to reclassify the accounts erroneously charged to Receivable - Miscellaneous account.

Management has taken note of the herein audit findings and recommendations.

*For Outstanding Cash Advances:*

As a matter of policy and to strictly implement COA Circular No. 97-002, LWUA has undertaken appropriate measures as follows:

- sent notices/letters demanding immediate liquidation/settlement of outstanding cash advances; and
- withheld salaries and other fringe benefits of concerned SDOs.

*Other Receivable Accounts-*

With the abolition of the Rural Waterworks Development Corporation (RWDC) and transfer of its functions and assets to LWUA by virtue of EO 124, measures were undertaken by management to validate the existence of outstanding accounts held by the Electric Cooperatives. Audit teams were sent to establish its validity on a per project basis.

*BALRIG and IBRD 10% Equity Contributions of P1.7 million*

There was an absence of supporting documents to prove the existence and validity of the accounts, rendering the receivable account dormant for more than 20 years.

*Long outstanding cash advances of SDOs who were separated from service by reason of death or expiration of term or resignation.*

These long outstanding cash advances were granted during the period from 1986 to 1995 when pre-audit was instituted on government transactions other than payment of salaries of regular officers and employees. At that time, liquidation of these cash advances had to pass pre-audit before the same can be recognized in the books of accounts. In the process, the original copies of these liquidation documents were somehow lost in transit and can no longer be retrieved or located.

*Long outstanding cash advances of LWUA officials and employees still in active service*

For an accurate presentation of the Accounts Receivable in the financial statements, a journal voucher to recognize the incurrence of prior years' expenses in the books of accounts was issued.

*Multi-Purpose Loan Accounts -*

With regards to the Multi-Purpose Loan accounts of LWUA officers and employees who were already separated from the service, rest assured that COA will be kept informed of the action taken by management as well as the status of these unpaid accounts.

In view thereof, management should institute appropriate action for the approval of the writing-off of accounts receivable that could no longer be collected, such as BALRIG and IBRD 10% Contribution.

**7. LWUA's actual expenditures exceeded the Board - approved Corporate Operating Budget (COB) by 9% or by a total of P59.19 million. Moreover, the COB of LWUA was not yet approved by DBM due to non-submission of required documents.**

LWUA's actual expenditures exceeded its Board-approved Corporate Operating Budget (COB) for FY 2008 by nine percent (9 %) or by a total of P59,194,268. Actual expenditures were based on the reported Financial Statements of LWUA. Consider the following:

	Amount	Percentage
Total Approved Budget	P 645,478,796	100%
Actual expenses	704,673,064	109%
<b>Difference</b>	<b>P1,350,151,860</b>	<b>9%</b>

Details of the above are shown below:

Expenses CY 2008	LWUA Budget (a)	Actual expenses (b)	Difference (a) – (b)
Total Payroll and Other Personal Services	451,564,209	562,158,472	(110,594,263)
Maintenance and Other Operating Expenses, excluding bad debts and depreciation	164,894,427	125,464,208	39,430,219
Capital outlays	29,020,160	17,050,384	11,969,776
<b>Total</b>	<b>645,478,796</b>	<b>704,673,064</b>	<b>(P59,194,268)</b>

Moreover, in compliance with DBM Corporate Budget Circular No. 20, dated April 27, 2005 pertinent to the preparation and submission of the COBs of Government Owned and Controlled Corporations, LWUA was able to submit its proposed Corporate Operating Budget (COB) for CY 2008 to the Department of Budget and Management (DBM) for the latter's review and approval. However, per letter dated October 30, 2008 of Director Gil P. Montalbo of the DBM, we noted that the LWUA Board of Trustees approved the COB of LWUA at P645.478 million. However, the Director commented that such did not tally with the figures indicated under DBM Form 706 or the Uses of Funds by Expense Class in the total amount of P2.082 Billion. This was due to the non-inclusion of the corresponding budget for water development projects in the amount of P1.437 Billion in the Board Resolution.

DBM coordinated with LWUA in this regard and was informed that LWUA will revise its COB for CY 2008 to include the cost for projects. Thus, DBM returned the proposed COB without prejudice to its resubmission together with the revisions necessary including the corresponding Board Resolution for the purpose. As of this date, LWUA has not yet complied with the DBM requirement, thus, the COB of LWUA for CY 2008 was not approved by DBM.

We recommended that management limit the incurrence of expenditures within the budget approved by the Board of Trustees. In case of excess expenses, a Supplemental Budget should be prepared and approved by the Board of Trustees.

Likewise, LWUA should comply with DBM's requirement in the submission of the revised COB proposal to include the cost for Water Development Projects in the amount of P1.437 B.

Management has taken note of the herein audit observation and recommendations relative to the excessive incurrence of LWUA's current operating expenditures in CY 2008.

For better appreciation, reference was made on the submitted Status Report showing in detail the comparative statement of actual current operating expenses versus the COB level of expenses as approved by the LWUA Board of Trustees.

Management also explained that as regards the revised COB for CY 2008, DBM staff required LWUA to submit a list of LWUA's Locally Funded and Foreign Assisted Projects for CY 2008 and the corresponding Board Resolution approving the same in support to the DBM Form No. 706. LWUA was able to come up with the list of projects. However, they were not able to secure the required Board Resolution because of the sudden change in LWUA's Governing Board which led to new corporate direction resulting to so many revisions. The said CY 2008 COB returned by DBM in November 2008 was already overtaken by significant events and no longer worthy of re-submission. By the time LWUA received the same, they were already too busy preparing the CY 2009 COB geared towards well funded hugely expanded coverage which is totally different from that of 2008.

Review of the submitted consolidated status report as of December 31, 2008 showed that the total re-aligned budget for CY 2008 was P653,528,796 and the actual expenses totaled P630,650,773. However, comparison between the Budget Studies Report and the recorded actual expenses for Financial Statements revealed that some allowances and bonuses were not included in the Budget Status Report, such as CNA Incentives for CY 2007 of P45 million and other prior year's adjustments.

Meanwhile, approval by the DBM is required for the LWUA Corporate Operating Budget.

**8. Notwithstanding the issuance of prior years' Audit Observation Memoranda on Extraordinary Miscellaneous Expense (EME) Account, actual (EME) for the period January to December 2008 in the total amount of P20.459 million were not supported with receipts and/or documents evidencing disbursements as required under Section 3 of COA Circular No. 2006-001 dated January 3, 2006.**

On January 3, 2006, COA Circular No. 2006-001, was issued prescribing the guidelines on the disbursement of extraordinary and miscellaneous expenses and other similar expenses in government-owned and controlled corporations/government financial institutions and their subsidiaries.

For CY 2008, LWUA allocated P27,541,256.00 for Extraordinary and Miscellaneous Expenses, but only P26,586,468.68 was incurred during the year leaving a balance of P954,787.32 as follows:

	<b>Extraordinary Expenses</b>	<b>Miscellaneous Expenses</b>	<b>Total</b>
LWUA Approved Budget	P20,570,000.00	P6,971,256.00	P27,541,256.00
Expense	20,459,022.74	6,127,445.94	26,586,468.68
<b>Savings</b>	<b>P 110,977.26</b>	<b>P843,810.06</b>	<b>P 954,787.32</b>

Verification of the account Extraordinary Expenses for CY 2008 revealed that some LWUA officials still claimed their monthly reimbursement of extraordinary expense allocation at the beginning of the month without the required receipts and/or other documents evidencing disbursements. Only a certification was attached to the claims attesting to the incurrence of the extraordinary expenses in the amount of P20,459,022.74. This is contrary to the provision of COA Circular No. 2006-001 quoted as follows:

- “2. Payment of these expenditures shall be strictly on a non-commutable reimbursable basis.
3. The claim for reimbursement of such expenses shall be supported by receipts and /or other documents evidencing disbursements.”

Moreover, we noted that the LWUA-approved budget for Extraordinary Expenses of the four (4) members of the LWUA Board of Trustees amounted to P5,720,000.00 only. However, the total Extraordinary Expenses incurred by members of the Board of Trustees amounted to P6,339,999.72 or in excess of P619,999.72.

Meanwhile, examination of receipts and/or other documents evidencing payments for Miscellaneous Expenses in the total amount of P6,127,445.94 revealed the following audit observations:

- a) There were expenses reimbursed under the Miscellaneous Expenses that should have been appropriately categorized under regular budget allocation of LWUA, such as:

<b>Particulars</b>	<b>Amount</b>
Fuel Expenses - Gasoline & Oil	P 1,700.00
PLDT Telephone Bills – Communication Expenses (Telephone)	22,382.77
Expenses for KFW Mission which including fuel expenses, chartered tours and multi-cab rental - Local Travel	4,500.00
Expenses for various meetings which including plane fare tickets/ hotel accommodations and boat/van rental - Local Travel	33,600.00
Newspaper (Adonis Gamba) – Subscription & Publication	18,108.00
Cell phone Cards – Communication Expenses (Telephone)	132,110.88
Congressional Lobby – Professional and Consultancy Fees (Lobby Fund)	298,768.94
Congressional Media – Public Information Expense (Media Entertainment)	50,000.00
<b>Total</b>	<b>561,170.59</b>

- b) The supporting documents evidencing disbursements of Miscellaneous Expenses included ORs that were not registered with the BIR (no BIR permit for the printing of the Ors), an indication that the establishment is not paying taxes to BIR.
- c) Reimbursement for various meeting expenses was supported with OR from Rustan's Marketing with no details of expenses
- d) Three (3) OR's for Syncopado Bar Café, Stage 3 Resto & Entertainment Corp and Night Line Entertainment Corp.
- e) Two (2) Credit Card Customers copies in the total amount of P2,580.00 without the details of the expenses to determine its propriety.
- f) Inclusion in the Miscellaneous Expenses of various cash advances from LWUA employees which remained unliquidated as of December 31, 2008.
- g) There were reimbursements of official receipts from Miscellaneous Expenses that were dated on days which fall on Saturdays and Sundays and Holidays.
- h) The expenses for LWUA Anniversary amounted to P838,616.63 but based on the LWUA approved budget for CY2008, Anniversary Expenses under the Miscellaneous Expense budget has an allocation of only P250,000.00.
- i) Breakdown of Miscellaneous Expenses shows that there were negative balances of the account due to adjustments made at the end of the year. Per JV No.12-35-08 Miscellaneous Expenses of P1,881,575.32 were recorded and a liability was recognized. However, under JV No.12-96-08, another adjustment was made crediting Miscellaneous Expenses of P1,892,273.00 and debiting the liability account. This resulted in the total negative balance of P555,283.60

Some of the audit observations mentioned above was already discussed in prior year's Audit Observation Memoranda but were not considered/implemented by Management.

We recommended that the provisions of COA Circular No. 2006-001 dated January 3, 2006, specifically on adopting a non-commutable or reimbursable basis for payment of extraordinary expenses and supporting the claims with receipts and/or other documents evidencing disbursement, be strictly complied by management.

The reimbursement of extraordinary and miscellaneous expenses (EME) should be within the approved amount for each Department/Official.

There is also a need to categorize extraordinary and miscellaneous expenses within the contemplation of Section II of COA Circular No. 2006-001

We further recommended that Management make the necessary adjustment to reclassify the improper charges to miscellaneous expense accounts.

Management has taken note of the herein audit observations and recommendations.

On the issue of non-submission of receipts to support the claims for 'Extraordinary and Miscellaneous Expenses', reference was made on the existing provisions of Section 397c, Chapter 17 of the GAAM which states:

"The entitlement to the EME of officials concerned shall be on a non-commutable or reimbursement basis. The corresponding claim for reimbursement of these expenses shall be supported by receipts and/or other documents evidencing disbursements, if these are available or, in lieu thereof, by a 'certification' executed by the officials concerned that the expenses sought to be reimbursed have been incurred for any of the purposes contemplated under the law or regulation in relation to or by reason of his position."

Management explained that this particular provision of Section 397 of the GAAM is not inconsistent with the COA Circular No. 2006-001 as there were no mention whatsoever as to the exclusivity of said Circular, being silent on the matter, containing any express prohibition as to the acceptability of a 'Certification' in lieu of receipts or other documents evidencing disbursements, neither it can be said that the provision of the GAAM allowing a Certification to support a claim for EME was impliedly repealed for it has been held that repeal by implication is not favored and if two laws can be reasonably reconciled, the construction can be against such repeal.

Management also claimed that consistent with the existing provisions of COA Circular 2006-01, reimbursements for EME were made within the limits of the realigned budgets as approved by the LWUA Board of Trustees for CY 2008. For ready reference, Budget Status Report showing the Realigned Budget for EME was submitted.

On the applicability of Section 397c of GAAM on the use of Certification in lieu of receipts and/or any documents evidencing disbursements, we informed Management that such Section was lifted from COA Circular No. 89-300 dated March 21, 1989 which categorically pertain to national government agencies only. Whereas COA Circular No. 2006-01 dated January 3, 2006 was issued to prescribe rules and regulations, specifically, for government corporations to regulate the incurrence of EME and to ensure the prevention or disallowance of irregular, unnecessary, excessive, extravagant or unconscionable expenditures or uses of government funds. Moreover, it was specifically provided for under Section IV of COA Circular No. 2006-01 that all issuances inconsistent herewith are amended or repealed accordingly.

We reiterated our recommendation that the provisions of COA Circular No. 2006-001 dated January 3, 2006, specifically, on adopting a non-commutable or reimbursable basis for payment of extraordinary expenses and supporting the claims with receipts and/or other documents evidencing disbursement be strictly complied by management.

**9. Some LWUA Officials whose offices were issued with government motor vehicles and incurred fuel expenses still claimed Transportation Allowances contrary to COA Circular No. 99-002 dated June 15, 1999. On the other hand, deductions from RATA of some LWUA officials who availed the use of government vehicles amounted to P600 or P400 per month only instead of 50% of their RATA.**

COA Circular No. 99-002 dated June 15, 1999 clarifies the entitlement to transportation allowance of government officials whose offices have been issued with government vehicles in accordance with the ruling of the Supreme Court on Aida Domingo vs. Commission on Audit. Based on the ruling of the Supreme Court, government officials whose offices are issued with motor vehicles are not entitled to transportation allowance whether or not they actually use the vehicles assigned to them.

Review of the Report on comprehensive Inventory of Motor Vehicles as of December 31, 2008 and Monthly Fuel consumption Reports from January to December, 2008 disclosed that some LWUA officials and employees who were issued with government motor vehicles and incurred gasoline and diesel fuel expenses still claimed transportation allowances.

We also noted that in some instances, deductions from the RATA were made by LWUA officials who used government vehicles and consumed gasoline. However, deductions made amounted to P600 or P400 per month only instead of 50% of their RATA. They explained during the exit conference that only P400 or P600 was deducted because according to their previous officials, the whole amount of the RATA could be spend for representation expenses, hence transportation allowance was then pegged at P600 or P400.

Moreover, it was also noted that LWUA Corporate Operating Budget for Calendar Year 2008 reveals that the Chairman, Vice-Chairman, Members of the Board of Trustees were provided with Representation and Transportation Allowances.

Section 55 of Presidential Decree No. 198 (Provincial Water Utilities Act of 1973) stipulates that as Compensation, the Trustees shall each receive a per diem as may be fixed by the Board for each meeting actually attended by them and in addition, shall be reimbursed for the expenses incurred by them in connection with the performance of their functions in such amounts as may be determined by the Board.

Representation and Transportation Allowances are not reimbursable expenses and the members of Board of Trustees are not entitled to any monthly commutable allowances.

We recommended that the granting of Transportation Allowances to LWUA officials and employees with issued government motor vehicles and whose offices incurred gasoline and diesel fuel expenses be discontinued. Likewise, deduct Transportation Allowance in the amount equivalent to 50% of RATA instead of P600 or P400.

10. **A provision in the LWUA Inter-Office Memorandum dated June 16, 2008 defeated the purpose of Administrative Order No. 228 dated June 2, 2008 in reducing transport fuel consumption in liters by 10%.**

Section 1 of Administrative Order No. 228 dated June 2, 2008 provides that all government agencies shall reduce transport fuel consumption in liters by ten (10) percent starting June 2008.

In compliance thereto, management issued Inter-Office Memorandum dated June 16, 2008 requiring the reduction of the transport fuel consumption of the LWUA officials/units/offices by ten (10) percent effective July 2008.

However, par. 3 of the Inter-Office Memorandum states that "Fuel expenses in excess of the authorized monthly allocation shall be charged against the respective miscellaneous expenses of each service". Such provision defeats the purpose of reducing transport fuel consumption by charging the excess in authorized allocation against miscellaneous expenses.

Records show that for the period July-December 2008, LWUA officials/units/offices consumed fuel of 17,605.46 liters as compared to fuel consumption of 19,825.12 liters for the period January-June 2008 with the corresponding reduction of 2,219.66 liters or 11%.

The reduction on fuel consumption of 11% conforms to the order of President Gloria Macapagal Arroyo to reduce transport fuel consumption in liters by 10% starting June 2008.

However, we noted that actual monthly fuel consumption of some of the Board of Trustees exceeded their monthly fuel allocations. However, in conformity with the provision of LWUA Inter-Office Memorandum dated June 16, 2008, the excess in the monthly fuel allocation for the month of September 2008 was charged against miscellaneous expenses. As such, the purpose of the National Government in addressing the rising cost of energy was not attained.

Management, in addressing the rising cost of energy, should limit transport fuel consumption up to the authorized monthly allocation only without charging excess fuel expenses against miscellaneous expenses or other expense accounts.

An inter-office memorandum was issued on April 17, 2009 informing all LWUA officials concerned of the strict implementation of fuel allocation ceilings and the provision for the charging of the excess fuel consumption to Miscellaneous Expenses was already deleted.

11. **Liquidation of cash advances for travels completed were not supported by certificate of appearance signed by authorized officials of the agency visited by the LWUA employee.**

Section 3.1.2.2 (e) of COA Circular No. 96-004 dated April 19, 1996 requires that officials employees concerned shall liquidate cash advances for travel and it shall be supported by, among others:

“e” Certificate of appearance or a copy of the report on the accomplishments of the purpose of the travels duly noted by the agency head or his authorized representative. However the certificate of appearance shall no longer be required in the case of travels of agency heads within their area of jurisdiction.”

Verification of traveling expenses revealed that the liquidation vouchers for travel completed was supported with a “Certificate of Travel Completion and Appearance” signed by traveling person and certified by the Administrator or authorized official. The traveler certifies that he personally appeared in the place/s and date/s indicated therein; that the purpose of travel has been served accordingly and that the statement is made in lieu of the Certificate of Appearance required by Section 11.1.2 of DBM-COA Circular No. 86-1 dated November 12, 1986.

The statement of the traveler that he/she personally appeared at places and on dates indicated in his Certificate of Travel completed is considered self-serving. The veracity therefore that travel is actually undertaken is not assured since the certificate of appearance is not signed by authorized officials of agencies where LWUA employee went on official travel.

In fact, there was a complaint received by COA from General Manager of San Francisco Water District that their Resident Engineer from LWUA was able to claim travel expenses without asking any certificate of appearances from the Water District from which they are assigned.

We recommended that the liquidation of cash advances for travel be supported by all pertinent documents required under Section 3.1.2.2 of COA Circular No. 96-004 dated April 19, 1996. In case no certificate of appearance was secured, the liquidation voucher should be supported with a copy of the report on the accomplishment of the travel duly noted by the Agency Head or his authorized representative.

Management has taken note of the herein audit findings and recommendation. As a matter of policy, all pertinent documents required under Section 3.1.2.2 of COA Circular No. 96-004 dated April 1996 i.e. Certificates of Appearance, as well as Travel Completion Reports were all part of the traveling personnel’s liquidation documents being submitted to the General Services Division/LWUA. These documents were all available for audit and inspection at the Records Division.

Liquidation vouchers of traveling personnel should be attached to the disbursement vouchers being submitted to COA for audit. Moreover, the audit observation was prepared based on the complaint received by COA from General Manager of San Francisco Water District that their Resident Engineer from LWUA was able to claim

travel expenses without asking any certificate of appearances from the Water District from which he is assigned.

Thus, we reiterated our recommendation that the liquidation vouchers of cash advances for travel be supported by all pertinent documents.

**12. Reported collection efficiency ratio of Loans Receivable from Water Districts reached as high as 95%. However, 55% of collections represent refinanced loans to Water District and only 40% represent actual cash collections. Moreover, non-performing loans of P925.475 million was not included in the amount of total collectibles.**

Collections made as of December 31, 2008 shows a high collection ratio of 94.88% compared to CY 2007 and CY 2006 at 91.66% and 83.95%, respectively, due to loan refinancing, advance payment and collection action plan of the Agency.

Analysis of the Billing and Collection Report of the Loans Administration Department revealed continuous upward trend in the collection performance of LWUA. The upswing collection performance is unparalleled. From 83.95% in 2006 to a high level of 91.66% in 2007 to an all time high collection ratio of 94.88% for calendar year 2008 which means that for every P100 billed to the Water District P95 has been collected. Shown below are the highlights of LWUA's billing and collection activities for CY 2008 as compared to previous years CY 2007 and CY 2006 (In billion):

	2008	2007	2006
Billing	4.120	1.943	3.339
Collections	3.909	1.781	2.803
Collection Ratio	94.88%	91.66%	83.95%

Further analysis of the report showed that for the year under audit, Area 7- composed of Agusan, Misamis, Surigao provinces- has the highest collection ratio of 97.94% with a total collection of P715,719,575 out of P730,754,676 billing. However, Area 9 – Lanao, Sulu, Misamis and Zamboanga provinces – has the lowest collection ratio of 67.76% amounting to P 113,395,907 out of total collectibles of P 167,351,849.

We, however, noted that included in the total collections of P3,909,109,895 is the amount of loan refinanced to the Water Districts totaling P 2,253,642,704 or 55% of total outstanding loans receivable. Thus, only 40% of total outstanding loans represent actual cash collections. Moreover, the total outstanding loans receivable of P4,120,149,042 does not include Non-Performing Loans in the total amount of P925,475,435. Non-Performing Loans are Loans Receivable from Water Districts aged one (1) year and above. Consider the following:

	<b>Amount</b>	<b>Percentage</b>
Reported outstanding Loans Receivable.	P4,120,149,042	82%
Non-Performing Loans Receivable	925,475,435	18%
<b>Total Collectibles</b>	<b>5,045,624,477</b>	<b>100%</b>
<b>Collections:</b>		
Refinanced Loans	2,253,642,704	45%
Cash Collections	1,655,467,190	33%
<b>Total Collections</b>	<b>3,909,109,894</b>	
<b>Balance</b>	<b>P1,136,514,583</b>	<b>22%</b>

Based on the foregoing, LWUA posted a collection efficiency of 78% as against reported collection efficiency of 95%.

Management still has to continue exerting joint efforts in the collection of loans receivable, especially, from those Water Districts with arrearages and from non-performing loans. Also, Management should institute measures and legal action to demand payments of all long-overdue accounts from non-operational water districts.

Management has taken note of the herein audit observations and recommendations.

Management also explained that continuing efforts are being exerted to increase collections such as:

1. For delinquent accounts, management has devised a Collections Action Plan (CAP) where LWUA and Water Districts agreed on a payment plan that is monitored on a regular basis
2. Financial Relief Assistance is being granted to help the depressed Water Districts.
3. The Legal Department is continuously processing Legal Action (friendly litigation) to collect overdue accounts, like the Metro Cebu Water District's account.

On the issue of unparallel ratio between Area 7 of 97.94% and Area 9 of 67.76%, the peace and order situation in Area 9 where big accounts are located is one big factor that contributed to the said discrepancy.

There are non-performing accounts where districts were no longer operating and existing and whose collections are no longer possible but are still in the books.

We recommended that adequate allowance for bad debts be provided for non-performing accounts to present the realizable value of loans receivable.

13. **Thirty one (31) disbursement vouchers and checks totaling P6.2 million covering the period April 2002 to December 2008 were not yet forwarded to COA contrary to Section 43 (4) of PD 1445 and Section 427 of GAAM, Volume 2.**

Report of Outstanding and Released Checks as of December 31, 2008 revealed that 31 disbursement vouchers and checks totaling P6,248,148.87 covering the period April 10, 2002 to December 18, 2008 were not yet forwarded to COA as of February 2009 contrary to Section 43 (4) of PD 1445 and Section 427 of GAAM, Volume 2 which states that:

“The Auditors in all auditing units shall have the custody, and be responsible for the safekeeping and preservation of paid expense vouchers, stubs of treasury warrants or checks, reports of collections and disbursements and similar documents, together with their respective supporting papers, under regulations of the Commission.”

“Section 427 x x x

The Disbursing Officer shall ensure that the report is properly received and acknowledged by the Accountant. Within ten days after receipt of the report and supporting documents, the Accountant shall verify the report, record in the books and submit the original copy with all vouchers/payrolls and supporting documents to the Auditor.”

Verification also showed that although the following six (6) checks were already encashed by the bank on June 16, 2008 to December 18, 2008, these were not yet forwarded to COA for custody:

DATE	CHECK NO.	PAYEE	AMOUNT	DATE ENCASHED
6/16/2008	334891	Procurement Service	4,297.90	6/27/2008
6/17/2008	334950	Procurement Service	9,984.00	6/27/2008
10/6/2008	355605	Campos, Leonardo B.	403.8	10/9/2008
11/7/2008	375028	Procurement Service	97,737.20	11/28/2008
12/10/2008	375570	Pinto, Ronaldo C.	8,329.20	12/11/2008
12/18/2008	375693	Asprer, Lillian N.	35,300.00	12/19/2008
<b>TOTAL</b>			<b>156,052.10</b>	

Likewise, we noted that there are thirteen (13) checks amounting to P934,935.18 covering the period April 10, 2002 to December 05, 2007 which remain outstanding and not yet reported as stale after 6 months from date of issue.

We recommended that all paid disbursement vouchers and its supporting documents be immediately forwarded to COA for custody and verification.

Management submitted a copy of the Report from the Cash Management Division/Department showing the status of the individual disbursement voucher subject of this observation. Management also assured that the disbursement vouchers still in the custody of Cash Management Division, LWUA will be forwarded to the Office of the Auditor in due time.

**14. Due to BIR includes Withholding Tax Payable worth P11.2 million that remains outstanding for more than a year.**

For the year 2008, the account Due to BIR is composed of:

Withholding Tax Payable	P13,229,020.50
Income Tax Payable	329,288.61
<b>Total</b>	<b>P13,558,309.11</b>

This amount is accounted for as follows:

**Payments already made in January 2009:**

Income Tax Payable for December 2008 - Paid in January 2009	P 329,288.61
Withholding Tax Payable For CY 2008 and Paid/ Adjusted in January 2009	2,018,709.18
	<b>2,347,997.79</b>

**Still Outstanding**

Withholding Tax of Contractor: For the Santiago WD Project withheld in Sept. '05	4,408,690.03
For the JBIC Project Withheld in December 2007	1,205,745.36
	<b>5,614,435.39</b>
Prior Years Accounts (1997) for further verification	5,595,875.93
	<b>11,210,311.32</b>

**TOTAL P13,558,309.11**

As shown above, P11,210,311.32 or 83% of the total balance of Due to BIR was withheld in prior years. Failure to immediately remit withholding taxes to BIR may result to incurrance of additional interests and penalties.

We recommended that management should immediately remit the outstanding tax withheld amounting to P5,614,435.39 and exert more efforts to account for the balance in the amount of P5,595,875.93.

Management has taken note of the herein audit observation. An in-depth analysis of the account "withholding taxes payable" has been conducted and is almost 100% complete. Rest assured that the Office of the Auditor will be furnished a copy of the Report of

Compliance as soon as the analysis was completed and payment thereof has been made.

15. **Cash Advances for traveling expenses in the total amount of ₱2,447,968.62 representing 53% of total cash advance remained unliquidated as of December 31, 2008, contrary to the provisions of COA Circular No. 97-002. The non-liquidation of outstanding cash advance overstates the asset and equity accounts by the same amount.**

Out of the total outstanding cash advance of P4,637,901.30 as of December, 2008, P2,447,968.62 or 53% was not liquidated within the prescribed period provided under COA Circular No. 97-002 dated February 10, 1999.

The amount represents cash advances for local and foreign travel, a one-time expense granted to various employees. The purpose for which these cash advances were granted had already been served.

Under Section 5.1, of COA Circular No. 97-002, cash advances should be liquidated as follows:

“a. Official Travel – within sixty (60) days after the return to the Philippines, in the case of foreign travel or within thirty (30) days after return to permanent official station in the case of local travel, as provided for under E.O. 248 and COA Circular No. 96-004.”

Further, Sec. 89 of PD 1445, the State Audit Code of the Philippines, states that:

“A cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served.”

Unliquidated Cash Advance still remain in the books as receivables/asset accounts although expense were already incurred by the Accountable Officers in the years the cash advance were granted, thus overstating the receivables and understating the expense/equity accounts.

It was also noted that liquidation documents were already submitted during the year for Cash Advances worth P2,001,443.34 but these were processed and recorded in the succeeding months, January – February, 2009. Had these liquidation documents were immediately processed and recorded, the balance of Cash Advance as of December 31, 2008 should only be P2,636,457.96

We recommended that the Administration:

1. Ensure the proper liquidation of all cash advances in accordance with rules and regulation prescribed under COA Circular No. 97-002.
2. Exert effort to require the concerned employees to liquidate their long outstanding cash advances.

3. Facilitate the immediate processing of liquidation vouchers submitted by concerned accountable officers in order to update their accountability.

**16. Various adjustments/reclassifications were made after the date of the financial statements to reflect the correct amount of the accounts.**

In the course of the examination of the financial transactions and operations of LWUA for Calendar Year 2008, several Audit Observations Memorandum (AOMs) were issued to inform management of the observations noted and to recommend various adjustments or reclassifications to reflect the correct balance of the accounts. Management had taken note of the audit findings and recommendations and Journal Vouchers were prepared in March 2009 taking up the adjustments as recommended. Consider the following:

<b>Account</b>	<b>Balance 12/31/2008</b>	<b>JV No.</b>	<b>Adjustments</b>	<b>Adjusted Balance</b>
Due from NGs	28,182,302	01-121-2009	(5,646,800)	22,535,502
Office Equipment	89,054,291	01-103-2009 02-075-2009	11,812,873 427,466	101,294,630
Engineering and laboratory equipment	106,793,740	02-075-2009	22,224	106,815,964
Land Transportation Equipment	40,283,354	01-024-2009	1,273,880	41,557,234
Other Property and Equipment	8,151,746	02-073-2009	134,214	8,285,960
Accumulated Depreciation – Office Equipment	15,160,490	02-003-2009	12,604,964	27,765,454
Accumulated Depreciation – Land Transportation Equipment	36,758,009	02-003-2009	(753,821)	36,004,188
Accumulated Depreciation – Engineering & Laboratory Equipment	86,995,095	02-003-2009	(111,198)	86,883,897
Accumulated Depreciation – Other Property and Equipment	6,098,119	02-003-2009	(9,720)	6,088,399
Accumulated Depreciation – Building & Improvement	56,117,449	02-003-2009	1,961,534	58,078,983
Other Supplies Inventory	1,681,827	01-079-2009 02-002-2009 02-073-2009 02-075-2009 02-076-2009	(91,825) (816,050) 312,446 (583,904) (329,744)	172,750
Medical, Dental and Laboratory Supplies	445,387	01-079-2009	91,825	537,212
Loans Payable-Foreign	8,788,183,193	01-121-2009	(1,225,813,701)	7,562,369,492
Loans Payable – Foreign Current Portion	430,035,386	01-121-2009	(143,551,069)	286,484,317
Loans Payable - Local	608,280,000	01-121-2009	1,369,364,770	1,977,644,770

Account	Balance 12/31/2008	JV No.	Adjustments	Adjusted Balance
Prior Period Adjustments	(27,581,921)	01-024-2009	1,273,880	
		01-103-2009	11,812,873	
		01-104-2009	(5,646,800)	
		02-002-2009	(816,050)	
		02-003-2009	(13,691,759)	
		02-073-2009	312,446	
		02-076-2009	(329,744)	(34,667,075)

17. **Although the budget for Gender and Development (GAD)-Administered Programs of P460,000 did not represent the fund requirement equivalent to at least five percent (5%) of the total appropriations of the agency as authorized under the Annual General Appropriations Act, LWUA was able to undertake GAD activities required for the early stages of gender mainstreaming.**

Pursuant to the Annual General Appropriations Act (GAA), agencies are tasked to formulate a Gender and Development (GAD) plan and to implement the same by utilizing at least five percent (5%) of their total budget appropriations.

LWUA approved budget for Personnel Services and Maintenance and Operating Expenses totaled P **645,478,796**, thus it is mandated that at least P**32.3** million be allocated for GAD programs.

Review, however, of LWUA Corporate Operating Budget for Calendar Year 2008 disclosed that the budget for GAD Administered Programs under Outside Training and Seminars Account was inadvertently omitted. While management was able to request for the inclusion of P460,000 to GAD plans, projects and activities in the budget by way of realigning a portion of the PRAISE Account under Administrative Services to Outside Training and Seminars Account, still, the budget did not represent the fund requirement equivalent to at least five percent (5%) of the total appropriations of the agency as authorized under the Annual General Appropriations Act.

Although the budget appropriated for GAD activities fell short of the amount required under the Annual General Appropriations Act, LWUA was able to undertake GAD activities for the early stages of gender mainstreaming as required under Paragraph 4.13 of DBM-NEDA-NCRFW Joint Circular No. 2004-1 dated April 5, 2004.

Review of GAD Accomplishment Report for Calendar Year 2008 revealed the following:

1. To enhance awareness on GAD issues and concerns, the following program of activities were conducted:

- (a) Sponsored uniforms for LWUA Badminton and Bowling Teams.
  - (b) Conducted Tree Planting activity.
  - (c) Conducted Cheering /Aerobics Competition on GAD Messages.
  - (d) Sponsored T-shirts for LWUA officials and employees during the parade of colors.
  - (e) Attended briefing/orientation on PAWD GAD activities.
2. To enhance understanding and appreciation of gender concepts/principles among LWUA's policy makers/development planners and program implementers, GAD representatives attended International symposium on Women, Water and Waste.
  3. To identify activities/areas that have to be implemented / be addressed towards GAD mainstreaming in the agency, planning sessions were conducted to continue building mechanisms/guidelines for the integration of GAD in key corporate programs/functions of LWUA.

Aside from its regular activities, the GAD Focal Point also focused on the following:

- a. Mainstreaming Gender and Development in Key LWUA functions, programs and policies;
- b. Development of "gender-lenses", a set of evaluative criteria to determine gender-sensitivity and adherence to Gender and Development principles, policies, programs, functions and projects;
- c. Setting-up of a "GAD's Center" that will serve as Gender and Development Library, Conference Room, Women's Desk Office, and venue for other GAD-related activities such as film-showings, recovery and resting room for all ill-feeling women employees.

However, considering that GAD Focal Point was formally incorporated as early as Year 2000, only the activities related to the early stages of gender mainstreaming was achieved. Moreover, no GAD plan and budget for CY 2008 duly endorsed by National Commission on the Role of Filipino Women (NCRFW) and approved by the Department of Budget and Management (DBM) was submitted by LWUA GAD Focal Point.

The GAD Focal Point explained that they feel overwhelmed by the implications of COA's instructions. Following the GAA as COA explained, LWUA has to allocate at least 5% of its approved budget for personnel services and maintenance and operating expenses for GAD program. This would amount to at least P32.3 million. The amount is simply staggering. Nevertheless, the GAD Focal Point chairperson recently consulted with the National Commission on the Role of Filipino Women (NCRFW) which monitors government agencies' compliance to GAD mandate on how this can be done. She was advised to fax LWUA's mandate, GAD's own vision and mission, plans and programs for 2009 and 2010 and accomplishment reports for the previous years so NCRFW can do analysis and recommend proposals. Until the GAD Focal Point is properly guided by

NCRFW, the members of the GFP can only venture to implement what is in the GAD plan as approved by the Administrator.

We reiterated our prior year's recommendation that GAD concerns and issues in the planning, programming and budgeting process, as well as the agency performance commitment be reviewed and be implemented with a budget as authorized under the Annual General Appropriations Act.

## STATUS OF IMPLEMENTATION OF PRIOR YEARS'S AUDIT RECOMMENDATIONS

Item No.	GL Account Name	Audit Findings	Recommendations	Complied(/) Not complied(x)
<b>FINANCIAL AUDIT</b>				
1.	<b>Cash in Bank</b>	Cash in Bank accounts were understated in the books by ₱ 43.32 million casting doubt on the reliability of the reported cash balance as of year end.	Update the Bank Reconciliation Statements for all bank accounts to reflect the correct account balance and to be regularly submitted to COA for verification purposes.  Management should exert effort to adjust the reconciling items which have long been outstanding in order to reflect the correct account balance.	(x) Bank reconciliation was updated for the 2007 Financial Statements but not yet updated for the 2008 Financial Statements. See Finding No. 2 for the same audit observations.
2.	<b>Accounts Receivable</b>	The validity and accuracy of accounts receivables were doubtful inasmuch as the possibility of collecting ₱ 8.4 million is already remote. These receivables remained outstanding for nine (9) years to twenty-six (26) years while the whereabouts of some borrowers could no longer be located.  Moreover, only P4.5 million was provided as allowance for bad debts on miscellaneous receivables or 4% of the total accounts receivables of ₱135.1 million.	Management has to intensify collections of overdue accounts by sending demand letters to debtors who are still in the active service, and by instituting legal action if necessary.  Resort to foreclosure of collaterals of separated employees.  If efforts prove futile, LWUA should request COA for write off of all uncollectible accounts.  Provide for adequate allowance for bad debts for accounts whose possibility of collections is remote.	(x) See Finding No. 6 for the same audit observation

Item No.	GL Account Name	Audit Findings	Recommendations	Complied(/) Not complied(x)
3.	<b>Prepayment</b>	The Prepayments account as of December 31, 2007 was overstated by ₱532,732.29 due to the non recognition of the expired portion of the insurance.	Prepayments and Insurance expense accounts should be adjusted to reflect the correct amounts as of December 31, 2007	(/)
4.	<b>Building and Grounds Supply Inventory</b>	The General Ledger balance of Building and Grounds Supplies Inventory differed by ₱1,020,438.62 against the Inventory Report of the Buildings and Maintenance Division. The difference was due to the double recording of the supplies consumption for the period January 2002 to September 2005.	Reconcile the difference noted between the Inventory Report and the General Ledger balance of Building and Grounds Supplies Inventory as of Dec. 31, 2007.	Partially complied. Reconciliation was undertaken for the 2007 but not yet made for the 2008 Financial Statements. See finding No. 4.
5.	<b>Long-term Loans Receivable</b>	The balances of long-term Loans Receivables recorded in the LWUA books and as confirmed by various water districts showed a net variance of ₱2,034,862.55 casting doubt on the accuracy and existence of the reported account balance as of Sept. 30, 2007. Moreover, the General Ledger balance of Long-term Loans Receivables differed by ₱139,340,466.31 against the corresponding subsidiary ledger balances maintained for each Water District.	A thorough reconciliation of the books of LWUA and the concerned water districts should be made to bring the two records in agreement. The result of the reconciliation process should be submitted to the Office of the Auditor for validation.  General Ledger Balance should be reconciled periodically with the corresponding subsidiary ledger balance.	(x) See finding No. 1
6.	<b>Long-term Loans Receivable</b>	Loans extended to non-operational water districts amounting to ₱4,038,812.02 remained outstanding for more than 14 years casting doubt on the collectibility of these loans.	Institute measures and legal action to demand payments of all long overdue accounts from non-operational water districts. Actions taken	(x) See finding No. 6

Item No.	GL Account Name	Audit Findings	Recommendations	Complied(/) Not complied(x)
			should be properly documented so that proper write-offs requested to COA will be supported with legal and regulatory requirements.	
		Only 40% of non-performing loans was provided with bad debts provision.	Accounts determined to be uncollectible shall be written off subject to legal and regulatory requirements.	
7.	<b>Allowance for Bad Debts</b>	The Allowance for bad debts was understated by ₱57,875,423.70 due to erroneous computation, thus fair presentation of the Loans receivable in the financial statements was not assured and income for the year was overstated.	Necessary adjustment/s should be made to correct the understatement of allowance for bad debts and the overstatement of income.	(/)
8.	<b>PPE</b>	Purchase of Tricon Roller Inset Tungsten Carbide Button bits worth ₱480,000 was recognized as Inventory instead of Property and Equipment in violation of COA Circular No. 2005-002.	Reclassify Tricon Roller Inset Tungsten Carbide Button bits from inventory to PPE	(/)
9.	<b>PPE</b>	Book value of the disposed assets was not considered in recording the sale and transfer of unneeded motor vehicles worth ₱343,152 resulting in the overstatement of income and the understatement of Transportation Equipment account.	Consider the book value of assets in recording the disposal either through sale or transfer without cost.	(/)

Item No.	GL Account Name	Audit Findings	Recommendations	Complied(/) Not complied(x)
10.	<b>Long-term Loans Payable Foreign</b>	Additional penalty charges totaling ₱26 million was incurred for CYs 2005 to 2007 due to LWUA's failure to pay on time their foreign loan amortization, BTr handling charges and cable charges.	Give priority for the payment of loans advanced by the BTr plus handling charges and cable costs, not later than due dates, to avoid incurring additional penalty charges.	(/)
11.	<b>Long-term Loans Payable Foreign</b>	Two Loans from the International Bank for Reconstruction and Development (IBRD) totaling ₱142,220,702 remained outstanding for five to ten years, without any existing valid claim	Make the necessary adjustments to correct the balance of the affected accounts.	(/)

#### COMPLIANCE AUDIT

12.	<b>CNA Incentives</b>	The grant of CNA Incentives for CY 2007 was not in accordance with the conditions cited under DBM Budget Circular No. 2006-01 dated February 1, 2006	Strict adherence on the provisions of Administrative Order No. 135 dated December 27, 2005 and Budget Circular No. 2006-01 dated February 1, 2006 prescribing the policy and procedural guidelines on the grant of CNA Incentives be observed by the Administration.	Corporate Operating Budget for 2008 was not yet approved by DBM hence, correct computation of the CNA Incentives could not be made for CAN Incentives paid in 2008.
13.	<b>Personal Services and MOOE</b>	The Administration's actual expenditures for Personal services and MOOE exceeded the DBM-approved COB by ₱320 million.	A post facto approval should be secured for the expenses incurred in excess of the approved COB for CY 2006. Justifications should be provided to DBM for granting allowances and	(x) See finding No. 7

Item No.	GL Account Name	Audit Findings	Recommendations	Complied(/) Not complied(x)
14.	<b>Extraordinary and Miscellaneous Expenses (EME)</b>	EME incurred by some LWUA officials exceeded the DBM approved budget allocated for their respective offices and positions. Likewise, reimbursements for EME totaling ₱18.5 million were not supported by receipts and/or documents evidencing disbursements in violation of Section 3 of COA Circular No. 2006- 001 dated January 3, 2006.	<p>incentives that were previously disallowed in the approved Current Operating Budget.</p> <p>Strictly comply with the provisions of COA Circular No. 2006-001 dated January 3, 2006 specifically in adopting a non-commutable or reimbursable basis for payment of extraordinary expenses and supporting claims with receipts and/or other documents evidencing disbursements.</p> <p>The approved budgeted amount of EME for each LWUA officials and their respective office shall be the basis for control in the disbursement of these funds.</p>	(x) See finding No. 8